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ENVIRONMENTAL ASSESSMENT BOARD

VOLUME: 180

DATE: Monday, February 5, 1990

BEFORE:

M.I. JEFFERY, Q.C., Chairman

E. MARTEL, Member

A. KOVEN, Member

FOR HEARING UPDATES CALL (TOLL-FREE): 1-800-387-8810

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HEARING ON THE PROPOSAL BY THE MINISTRY OF NATURAL
RESOURCES FOR A CLASS ENVIRONMENTAL ASSESSMENT FOR
TIMBER MANAGEMENT ON CROWN LANDS IN ONTARIO

IN THE MATTER of the Environmental
Assessment Act, R.S.O. 1980, c.140;

- and -

IN THE MATTER of the Class Environmental
Assessment for Timber Management on Crown
Lands in Ontario;

- and -


IN THE MATTER OF a Notice by the
Honourable Jim Bradley, Minister of the
Environment, requiring the Environmental
Assessment Board to hold a hearing with
respect to a Class Environmental
Assessment (No. NR-AA-30) of an
undertaking by the Ministry of Natural
Resources for the activity of timber
management on Crown Lands in Ontario.

Hearing held at the Offices of the
Environmental Assessment Board,
2300 Yonge Street, Suite 1201, Toronto,
Ontario, on Monday, February 5th,
1990, commencing at 10:00 a.m.

VOLUME 180

BEFORE:

MR. MICHAEL I. JEFFERY, Q.C.	Chairman
MR. ELIE MARTEL	Member
MRS. ANNE KOVEN	Member



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I N D E X O F E X H I B I T S

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1 ---Upon commencing at 10:00 a.m.

2 THE CHAIRMAN: Thank you, everyone. Be
3 seated, please.

4 Mr. Cosman, are you going to lead the
5 charge?

6 MR. COSMAN: Yes, Mr. Chairman.

7 Mr. Chairman and Members of the Board,
8 the Ontario Forest Industries Association and the
9 Ontario Lumber Manufacturers' Association welcomes this
10 opportunity to present to you its evidence in this
11 environmental assessment.

12 The two associations represent the
13 private sector companies that are operating in the
14 forest communities across the area of the undertaking.
15 These companies and the people in the communities that
16 rely upon these companies have a vital interest in the
17 work of this Board. Their interest is not just that of
18 recreational activity, it is their very ability to
19 operate, it is their very ability to live and work in
20 the north that is at issue and which the Board, by its
21 decisions, could affect.

22 Mr. Chairman, for those of you -- and I
23 speak not only to the Board at this time but to the
24 others who are here today, for those of you who aren't
25 fully aware of who the associations are, I will briefly

1 describe them for you.

2 The Ontario Forest Industries Association
3 is comprised of 24 companies which are the forest
4 industries principal timber harvesters, pulp and paper
5 manufacturers and lumber, veneer and waferboard
6 operators in this province.

7 The Ontario Lumber Manufacturers'
8 Association is comprised of 49 sawmills and industrial
9 remanufacturing companies and this association has many
10 of the family-owned sawmills in the province as its
11 members. This association has as well the suppliers
12 and other service organizations to the Industry among
13 its membership. These other organizations have
14 employees, again, that rely upon this very important
15 Ontario industry. So from a major international
16 corporation to family-owned businesses, they have
17 joined together to present this case, their case before
18 this Board.

19 Members of the Association carry out
20 operations, as I've indicated, throughout the area of
21 the undertaking, from the Manitoba border to the Quebec
22 border and they have a substantial presence in northern
23 communities right across the entire area of the
24 undertaking.

25 Mr. Chairman, the evidence of our clients

1 will be presented in a series of 10 panels as described
2 in the outline that was filed with the Board late last
3 year and delivered to the parties at the same time.

4 The first panel, the panel that you will be hearing
5 today, is comprised of senior executives of companies
6 in the pulp, paper and lumber manufacturing sectors of
7 the forest industry.

8 Messrs. Boswell, Macdonald and Lafreniere
9 who are here today on your right, my left, will
10 describe the economic realities that face their
11 companies and companies in the Industry; they will
12 describe the context in which they carry on business;
13 they will describe in their evidence the markets that
14 Ontario lumber companies compete in with respect to
15 pulp, paper and lumber, and their evidence will
16 demonstrate that those markets are national and
17 international and highly competitive.

18 In their evidence they will outline what
19 the costs of production are to operate in Ontario and
20 they will deal with the relative costs of production by
21 the competitors of Ontario companies outside of this
22 province. Their evidence will be that costs of
23 production and delivery of products to markets must be
24 competitive if Ontario is to maintain its position in
25 these markets.

1 This first panel, Mr. Chairman, will also
2 make the point that investment in
3 productivity-enhancing technology is vital and they
4 will further describe how their companies and the
5 Industry has made that investment. Continued
6 investment depends upon domestic and world markets and
7 the ability of Ontario companies to be able to compete
8 in those markets.

9 In their evidence they will talk about
10 the various factors that affect their ability to
11 compete, they will talk about the impact of exchange
12 rates, the investment climate, the competition with
13 low-cost producers, energy costs and for the softwood
14 lumber industry the impact of the 15 per cent export
15 tax.

16 And, finally, Mr. Chairman, they will
17 make the point that the security of an adequate and
18 affordable wood supply is critical to Ontario's
19 industry. Proper management of the land base to secure
20 that supply is necessary for the viability of forest
21 product companies in Ontario and for the communities
22 they serve.

23 Now, Mr. Chairman, it may seem a little
24 strange that we would be starting with economic and
25 socio-economic considerations, but this Board knows -

1 not all the public does necessarily - that it is the
2 obligation of this Board to consider socio-economic
3 aspects of the environment as well as natural
4 environment issues.

5 But it is also important, and I want to
6 stress it in terms of our case before you, that the
7 Industry in Ontario is not saying, as is said in many
8 parts of the world, choose between jobs and the
9 environment; what the forest industry in Ontario is
10 saying is that it makes a valuable socio-economic
11 contribution while at the same time it is protecting
12 the environment and it is protecting the environment
13 through timber management planning processes and sound
14 environmental practices on the operational level and
15 much of that has been the subject of evidence before
16 you and, from an Industry perspective, we will be
17 putting forward evidence before you as to those issues.

18 Now, an improper and false analogy has
19 been made, Mr. Chairman, by some between forest
20 practices in other parts of the world, especially in
21 the rain forests, and what is happening in Ontario.
22 This Board knows from the evidence that it has heard
23 and from the site visits that it has taken that the
24 suggestion of decertification of Ontario forestlands
25 has no basis in reality.

1 The real story, especially since the
2 inception of the forest management agreement system in
3 1980, is a success story. Of course there can be
4 improvements, but it is a success story and, Mr.
5 Chairman, Industry will be leading evidence as to how
6 and in what fashion the processes and the planning
7 processes can be improved to even make it a greater
8 success story.

9 Now, Mr. Chairman, one of the points that
10 we will be making throughout our evidence which is very
11 important is that in describing the economic context of
12 competition we will be asking the Board to make
13 decisions on the basis of sound, scientific principles
14 and not on the basis of conjecture or emotional
15 argument because this Board has to be aware - and I'm
16 sure it is from the evidence it has heard - but from
17 Industry's perspective it is important that this point
18 be emphasized, that the decisions of the Board and
19 decisions which result in the creation of reserves may
20 be important and are supported by Industry in certain
21 instances, but when they are not based on sound,
22 scientific principles they result individually and
23 cumulatively in costs and then additional costs to
24 Ontario industry that can render it, in the long run,
25 to be uncompetitive in that environment.

1 Industry has supported the integrated
2 resource management system that has been proposed by
3 the Ministry of Natural Resources and it wants even to
4 go further in its evidence in involving members of the
5 public in the planning process, but it is important
6 that the decisions that are made not be made on the
7 basis of other than sound, scientific principles.

8 Now, Mr. Chairman, I propose to briefly
9 outline what will follow after today's evidence. Panel
10 1 will be followed, Mr. Chairman, by the evidence of
11 economic consultants, Michael Ross and Cam Watson, who
12 in their witness statements have described the
13 structure of the forest industry, its economic and
14 social contributions to communities in the north and
15 Ontario as a whole and they have looked at various
16 socio-economic impacts of the Industry on northern
17 communities.

18 Panel 3 is the wood supply panel, Mr.
19 Chairman, and this panel will address wood supply
20 issues from an Industry perspective. Topics addressed
21 include the forest resources inventory, the timber
22 production policy and the need for planning
23 flexibility. Examples of wood supply requirements for
24 selected industry sectors such as sawmilling or pulp
25 and paper will be provided in this evidence.

1 The next series of panels will be based
2 on a case study approach. Panel 4 will be a case study
3 introduction and overview. This panel will describe
4 the timber management activities which were carried out
5 by the Industry on five case study areas within the
6 area of the undertaking. Each case study represents a
7 major cover type within the area of the undertaking and
8 presents a detailed description of and commentary on
9 the access, harvest, renewal and tending activities
10 that were carried out in the relevant case study area.

11 The witnesses for that panel will provide
12 an overview of the nature of these operations, the
13 options that were in fact selected and implemented and
14 the field organizational structure of the industry
15 company involved with the management of the case study
16 area. To give you from an Industry perspective an
17 on-ground, in the field appreciation of what is facing
18 companies that are carrying out these activities.

19 A general description of the timber
20 management activities undertaken on each of these areas
21 will be given and the results to date of those
22 management activities will be described.

23 Also as part of the case study
24 introduction and overview, there will be a presentation
25 by two witnesses, Mr. Mike Innis and Mr. Dale Munro,

1 who will describe in a general way the initiatives that
2 the Industry Association are putting forward as part of
3 their terms and conditions as supported in Panel 10 by
4 the planning evidence.

5 The next four panels are access, harvest,
6 tending and protection and renewal. In the access
7 panel you will hear evidence on access activities in
8 the area of the undertaking and, from an Industry
9 perspective, the importance of access and the
10 implementation of timber management will be described,
11 the road planning process will be reviewed, road use
12 strategies and the minimization of impacts caused by
13 road location and construction will all be the subject
14 of evidence. The panel will have a witness informed
15 about the access activities described in each of the
16 case studies that will have been reviewed in Panel 4.

17 In the sixth panel, in the harvest panel,
18 evidence will be given by a witness on the Industry's
19 perspective on harvest activities in the area of the
20 undertaking. Topics addressed include the integration
21 of harvest and renewal, planning and implementation,
22 the choice and effects of silvicultural systems and the
23 need for harvest management alternatives. And, again,
24 the panel will have a witness informed about the
25 harvest activities described in each case study and

1 will discuss those particular activities.

2 In the tending and protection panel,
3 Panel 7, evidence will be given on those activities,
4 tending and protection activities in the area of the
5 undertaking. Topics addressed include the need for
6 tending and protection activities from an industrial
7 perspective, the choice among tending alternatives, the
8 need for the use of herbicides, the need for research,
9 development and registration of additional herbicides
10 and the need for the use of chemical and biological
11 insecticides in protection activities and, in addition,
12 the need for research, development and registration of
13 additional insect control agents and the benefits of
14 the use of best pesticides in forestry.

15 In the renewal panel, Panel 8, evidence
16 will be given by witnesses on the Industry's
17 perspective on renewal activities in the area of the
18 undertaking. Topics addressed include the need for the
19 renewal of the timber resource, the inter-relationship
20 of harvesting and renewal activities, the process of
21 timber renewal, planning, implementation and
22 monitoring, the effectiveness of industry renewal
23 efforts and need for a new timber production policy.

24 In Panel 9, the effects panel, there will
25 be two parts to it. The first part will be the effects

1 of the natural environment and this panel of witnesses
2 will give evidence on the environmental effects of
3 harvest and of the use of pesticides in renewal,
4 tending and protection activities on wildlife and
5 aquatic values.

6 The second part will be addressed to
7 issues related to public health and the use of
8 pesticides in forestry and you will hear evidence on
9 that in a separate panel by a separate group of
10 witnesses.

11 The final panel, Panel 10, is the
12 planning panel and the recommendations of Industry and
13 the results of their experience have been embodied in a
14 set of terms and conditions which has been served on
15 the parties and filed with the Board, and that panel
16 will in some detail address how the existing timber
17 management planning process may be improved.

18 Industry believes that through improved
19 public participation in the planning process it will
20 provide opportunities for compromise with other users
21 and minimization of land use conflict. And to this
22 end, the Ontario Forest Industry has designed, on the
23 base of what we consider to be a perfectly workable
24 system but what we believe is a better system, an
25 integrated resource management planning system that

1 will be the subject of evidence in Panel 10.

2 This panel's plan recommends improvements
3 to and mandatory application of the guidelines, more
4 effective treatment for areas of concern, enhanced
5 audit procedures, a multi-level advisory committee
6 structure, increased public consultation, separation of
7 the operating plan from the database, more structured
8 plan preparation and a simplified road planning
9 process.

10 Mr. Chairman, with those 10 panels and
11 their evidence we hope that you will have from
12 Industry's perspective a better appreciation of how
13 forests are impacted and how they best can be protected
14 for the use of the forest industry, the communities
15 that are found throughout the north and for the other
16 users of the forest.

17 THE CHAIRMAN: Thank you, Mr. Cosman.

18 MR. COSMAN: Thank you.

19 THE CHAIRMAN: Perhaps before we start we
20 should swear the witnesses.

21 Mr. Cassidy, if you wouldn't mind taking
22 the Bible down to the witnesses, it would be easier
23 than having to scramble around.

24 MS. SWENARCHUK: Mr. Chairman, if I could
25 interrupt for one moment.

1 THE CHAIRMAN: Yes, Ms. Swenarchuk?

2 MS. SWENARCHUK: I think I am speaking
3 for other counsel too in saying that we find the room
4 arrangement quite awkward and it's quite problematic to
5 be unable to see the Board at all. I'm not suggesting
6 that we all do an instant change, but I wonder if this
7 matter could be addressed overnight, and maybe we can
8 suggest other possible arrangements.

9 But I have never been in a hearing or
10 courtroom where I was not able to face the
11 decision-maker, and given the arrangement here, I can't
12 see the Board at all. So perhaps we can deal with this
13 matter later.

14 THE CHAIRMAN: All right. We can
15 certainly look at other alternatives. As you are
16 aware, we are just using this room on a very temporary
17 basis for these two panels and it is the Board's
18 expectation that when the hearing moves to Toronto we
19 will be in other facilities that are much more amenable
20 to the circumstances and the numbers of people that are
21 involved, but we will overnight try and come up with
22 something that is a better arrangement.

23 MS. SWENARCHUK: Thank you.

24 THE CHAIRMAN: Gentlemen, if you would
25 all place your hands on the Bible.

1 ROBERT LAFRENIERE,
2 EDWARD F. BOSWELL,
3 K. LINN MACDONALD, Sworn

4 MR. COSMAN: Mr. Chairman, perhaps I
5 should start by having the witness statements of the
6 this panel filed as an exhibit.

7 We have additional copies, Mr. Chairman,
8 for you or other persons who are here who may not have
9 the witness statement. If someone would just let me
10 know, I will make sure they are distributed.

11 THE CHAIRMAN: We believe we are up to
12 Exhibit 1030. Is that in accordance with everybody's
13 records?

14 MR. CASSIDY: (nodding affirmatively)

15 MR. COSMAN: That's correct.

16 THE CHAIRMAN: How do you want to file
17 these, A, B and C?

18 MR. COSMAN: Yes, that will be fine, Mr.
19 Chairman.

20 THE CHAIRMAN: Very well. Exhibits
21 1030A, B and C will be the three witness statements.

22 Which one is going to be which?

23 MR. COSMAN: Mr. Chairman, I am going to
24 be dealing with Mr. Macdonald and then Mr. Lafreniere
25 followed by Mr. Boswell. So perhaps we can put them in
 that order for purposes of the record.

1 THE CHAIRMAN: Very well. We will put
2 them in that order.

3 ---EXHIBIT NO. 1030A: Witness statement of K. Linn
4 Macdonald.

5 ---EXHIBIT NO. 1030B: Witness statement of Robert
6 Lafreniere.

7 ---EXHIBIT NO. 1030C: Witness statement of Edward
8 Boswell.

9 MR. COSMAN: Mr. Chairman, just a matter
10 of housekeeping. With respect to the witness
11 statements that had been filed, I noted on my copy that
12 I appear only to have had one page for Mr. Macdonald in
13 terms of his biography or CV and that is a mistake if
14 that is the case. There are two pages.

15 I wouldn't want to only put half of that
16 experience before you and would ask, if I might, to
17 file the three additional -- or one additional copy of
18 the CV either to be replaced or marked separately as
19 you consider appropriate.

20 THE CHAIRMAN: Well, perhaps we should
21 maybe file this separately.

22 MR. COSMAN: Maybe that's easier, Mr.
23 Chairman.

24 THE CHAIRMAN: Just to keep it in order.
25 So this will be Exhibit 1031.

1 Executive Vice-President for the paper group of
2 Abitibi-Price Inc.; is that correct?

3 MR. MACDONALD: A. That's correct.

4 Q. You were also, sir, a Director of the
5 Ontario Forest Industries Association?

6 A. That is correct.

7 Q. And I would like to briefly refer to
8 your experience with Abitibi-Price which is your
9 employer and, in that regard, I understand that you
10 joined the company in 1977?

11 A. Yes, I did.

12 Q. And you have gone through a series of
13 positions with the company leading to your present
14 position, but I wonder if I might just take you to
15 where on your CV, on the first page, you refer to the
16 fact that you were group Vice-President of
17 Abitibi-Price from 1982 to 1987.

18 And in the context of that job, sir, what
19 were your responsibilities?

20 A. At various times as Vice-President I
21 was responsible for all of the newsprint mills and all
22 of our ground paper mills in Canada and in the U.S., as
23 well as our woodlands operations. I was also
24 responsible for our engineering and research
25 activities.

1 MR. COSMAN: Is the sound coming through,
2 Mr. Chairman?

3 THE CHAIRMAN: I don't know. Are those
4 on?

5 MR. MACDONALD: It's on. The little
6 green light is on anyway.

7 THE CHAIRMAN: Perhaps if you could bring
8 it closer to you.

9 MR. COSMAN: Q. And from there, sir, you
10 went to the newsprint group where you were Executive
11 Vice-President. And I wonder if you might just
12 describe for the Board, give them a context of what the
13 operations of the company are all about, what your
14 particular responsibilities were in that job?

15 MR. MACDONALD: A. As Executive
16 Vice-President of the newsprint group, I was
17 responsible for the newsprint group as a business unit;
18 that is, the woodlands operations, the manufacturing
19 operations in the mills and the sales and marketing
20 operations world wide and the profitability of the
21 newsprint group.

22 The CV indicates that that included seven
23 mills in Canada, one in the U.S. and at the same time I
24 continued responsibility for central engineering and
25 for research and development.

1 Q. And your professional background,
2 sir, is as an engineer?

3 A. Yes.

4 Q. And you are not a forester?

5 A. No, sir.

6 Q. In your present responsibilities as
7 Senior Executive Vice-President of the paper group,
8 what is your mandate for the company?

9 A. Well, in addition to the newsprint
10 group, Abitibi-Price had another group called the
11 printing papers group. The two have been combined in
12 the paper group and I have the same broad
13 responsibility for the paper group; woodlands, mill
14 operations, manufacture -- and marketing world wide.

15 Because the groups are combined, this now
16 comprises 11 mills in Canada, one in Augusta,
17 Georgia, of course one in construction in Alabama at
18 the present time.

19 Q. Would you describe, sir, the nature
20 of the operations of Abitibi-Price as a company?

21 A. Yes, I'll try. Abitibi-Price as a
22 company has two large groups, the paper group, which I
23 have just spoken of briefly, and what we call the
24 diversified business group. They are approximately
25 equal in total annual sales, about \$1.6-billion each.

1 If I could just speak about the
2 diversified group for a moment, that consists of four
3 divisions. The distribution business, Abitibi-Price is
4 the largest distributor of printing papers and
5 industrial papers in Canada with wholesale operations
6 from coast to coast.

7 The second one is the converting business
8 and this includes envelope -- the large envelope
9 manufacturer in Canada, Hilroy, the largest producer of
10 school and office supplies.

11 The third is an office products division
12 which is in Canada, and to a greater extent in the
13 U.S., is a supplier of information processing
14 equipment. And, finally, the building products
15 operation which is in the U.S., manufacturing external
16 siding for homes and internal panelling. That
17 diversified business group as a whole has about 5,500
18 employees, about 1,700 of them in Ontario. As I say,
19 that represents about half of Abitibi's total sales.

20 The other half is the paper group.
21 Abitibi-Price is the largest North American producer of
22 newsprint with eight mills and capacity of about
23 1.9-million tonnes per year. It is also a producer of
24 groundwood printing grades and coated paper grades,
25 five mills producing about 600,000 tonnes a year.

1 Abitibi-Price markets the output of the
2 paper group world wide, but in broad terms about 70 per
3 cent of it goes to markets in the U.S., about 10 per
4 cent in Canada and the remaining 20 per cent in over 30
5 other countries around the world.

6 As Mr. Cosman said, it's a very
7 capital-intensive business and Abitibi-Price has
8 invested on average over the last 10 years about
9 \$200-million a year in new facilities or modernization
10 of existing facilities, more specifically in Ontario.

11 Well, would you like me to...

12 Q. Yes, I was going to ask you the
13 national picture first. Yes, I want you to complete
14 your picture, I would like to know where the operations
15 are internationally and then in Ontario.

16 I would like you to, perhaps with
17 reference to the map behind you, tell us where the
18 mills are located in this province?

19 A. I will give you the overall picture
20 first then, if I can. We have a newsprint mill in Pine
21 Falls, Manitoba, about 430 employees, 68 in the woods
22 operations associated with that. We have three mills
23 in Thunder Bay, Ontario, two newsprint mills with a
24 total of about 750 employees in those two mills and one
25 coated paper mill making higher grade coated paper

1 products such as you might find in an annual report or
2 in automobile advertising brochures. That mill has
3 just under a thousand employees, and then in the woods
4 operation in the Lakehead supplying wood to those three
5 mills about 200 employees.

6 Also in Ontario, a newsprint mill in
7 Iroquois Falls with 1,150 employees and 200 employees
8 in the woodlands operation supplying that.

9 Moving into Quebec, there is a mill in
10 Alma, Quebec secondary --

11 THE CHAIRMAN: Do you not have something,
12 sir, in Smooth Rock Falls?

13 MR. MACDONALD: We did own a pulp mill in
14 Smooth Rock Falls but that was sold to Malette three or
15 four years ago.

16 THE CHAIRMAN: Thank you.

17 MR. MACDONALD: The mill in Alma makes
18 both directory paper for telephone directories and
19 newsprint, 900 employees. There is a mill in Jonquiere
20 making higher grade roundwood printing papers
21 super-calendared bill sheet, machine finished offset
22 grades, 1,140 employees and, again, a common woods
23 operation supplying those two mills with about 200
24 employees.

25 There is a mill in Beupre just outside

1 Quebec City making roundwood business forms paper,
2 computer print-out paper and machine finished offset
3 paper which is typically used in the flyers and inserts
4 you receive in your daily newspaper, 500 employees.

5 A newsprint mill in Chandler on the Gaspé
6 coast with 660 employees. That mill is jointly owned
7 with the New York Times; Abitibi-Price owns 51 per cent
8 and the New York Times owns 49 per cent.

9 Two mills in Newfoundland; a newsprint
10 mill at Stephenville with 300 employees and a newsprint
11 mill in Grand Falls with a thousand employees, and a
12 woodlands operation supplying the two with a hundred
13 employees.

14 We also have a newsprint mill in Augusta,
15 Georgia, 370 employees. That mill is a 50/50
16 partnership with the Thomson Corporation which is a
17 large publisher in Canada and the U.S., and we have
18 under construction and due to start up on July this
19 year a mill in Cleburne, Alabama which will be a
20 newsprint mill with about 150 employees, and that is a
21 50/50 partnership between Abitibi-Price and Parsons &
22 Whittimore Corporation.

23 THE CHAIRMAN: Is that an American
24 producer?

25 MR. MACDONALD: Yes. That is not a

1 publisher but that is a pulp mill operator who have a
2 pulp mill on that site.

3 MR. COSMAN: Q. Now, Mr. Macdonald, you
4 are a party, I understand; that is, your company is a
5 party to two forest management agreements in Ontario?

6 MR. MACDONALD: A. Yes, one in Lakehead
7 and one in Iroquois Falls.

8 Q. Now, I have put behind you a map
9 which is a map that shows the various forest management
10 units in Ontario.

11 MR. COSMAN: And it has been marked as an
12 exhibit earlier in the proceeding, Mr. Chairman. This
13 is my copy of it. It is Exhibit 30.

14 Q. But just for the assistance of the
15 Board, with respect to your operations in Ontario, I
16 wonder if you might just stand on the other side facing
17 the Board and indicate to them where the forest
18 management agreement units are the Abitibi units in
19 Ontario.

20 MR. MACDONALD: A. All right. This is
21 the Iroquois Falls FMA in this area designated 011.

22 Q. That is designated on the map as 011?

23 A. Yes, supplying the Iroquois Falls
24 mill which is right around there, but it's not shown
25 specifically.

1 And this is the Spruce River Forest, the
2 FMA designated 030 on the map and supplying the
3 mills -- supplying fiber to the mills at Fort William,
4 Thunder Bay and the coated paper mill also in Thunder
5 Bay.

6 In addition, I might add that we own
7 several blocks of freehold forestland that are not
8 dotted in on that map area.

9 Q. All right. Now, sir, I would like to
10 take you to page 11 of your witness statement, if I
11 may, and would ask you to assist the Board with
12 evidence as to what the markets are for the sale of
13 your products from your mills in Ontario?

14 A. The coated paper mill in Thunder Bay
15 is largely selling its product in Canada. We are just
16 starting to expand into the U.S. market and have plans
17 to grow there substantially, but at the present time
18 over 90 per of its product is sold in Canada.

19 The other mills -- the other three mills
20 in Ontario are all newsprint mills and are part of our
21 total capability of producing newsprint, so that at any
22 one time a particular customer may be served from one
23 of those Ontario mills or another mill depending on a
24 variety of circumstances, but basically 80 per cent
25 plus of the newsprint from those mills would go to the

1 U.S. and the remainder into Canada.

2 Most of our newsprint sales to the
3 offshore markets are supplied from our mills in
4 Newfoundland and to a lesser extent from mills in
5 Quebec because of their easier access to those markets.

6 Q. Are those markets highly competitive,
7 sir?

8 A. All of them are. There is a great
9 degree of buyer concentration as the publisher...

10 Q. Just a second.

11 A. As the publisher...

12 --- (spectator enters room)

13 MR. COSMAN: One small reason to change
14 things.

15 Q. Go ahead.

16 MR. MACDONALD: A. All right. Talking
17 about the competitive nature of the markets, there is a
18 great degree of buyer concentration as the publisher in
19 chains have become larger and larger, and even with
20 Abitibi-Price's size as the largest producer of
21 newsprint in North America, we represent about a 14 per
22 cent market share.

23 Q. What per cent?

24 A. About 14 per cent market share.

25 Q. Right.

1 A. In the U.S., 6 per cent world wide,
2 and those shares are such that they foster the
3 competitive nature of the market. It truly is a
4 commodity market in that the newsprint from
5 Abitibi-Price is by and large interchangeable with
6 newsprint from CP Forest Products, Bowaters, Stone
7 Consolidated, Scandinavian producers or you name it.

8 Q. Who are the competitors, sir, that
9 compete in the market? Can you, in general terms,
10 describe them. Against whom does Abitibi compete?

11 A. In various markets Abitibi competes
12 with practically every large producer of newsprint in
13 the world. In the Canadian markets we are competing
14 with other eastern Canadian producers and in addition
15 to CP Forest and Stone Consolidated we have Kruger,
16 McLaren and Quebec & Ontario Paper and other firms.
17 Those are also the main competitors in the markets in
18 the northern tier of the United States, in addition to
19 some American producers in that area such as Great
20 Northern.

21 As you move into the southern part of the
22 U.S. we are in competition with southern producers:
23 Champion Paper in Texas, Boise in Louisiana,
24 Kimberly-Clark in Alabama, Southeast Paper in Georgia,
25 Bowaters in Tennessee and North Carolina, Bear Island

1 and Virginia. There are some Scandinavian imports into
2 the U.S. although they have diminished in recent years,
3 but they still have a presence in some of the coastal
4 areas.

5 On the world-wide basis, competing in
6 other markets we sell substantial quantities in Italy,
7 Spain, West Germany, U.K., throughout the Caribbean and
8 Central and South America, in Australia and Japan, and
9 in every one of those markets we will find ourselves
10 competing with some other Canadian producers, some
11 eastern Canadian producers, some western Canadian
12 producers, some local producers and Scandinavian
13 producers. Scandinavia and Canada supply a large
14 portion of the world's newsprint into those export
15 markets.

16 Q. I would like to take you, sir, to
17 pages 17 to 19 of your witness statement if I may and,
18 in particular, the summary of costs on page 19.

19 Now, you described this part of your
20 witness statement as being addressed to the relative
21 costs of your competitors or of competition. Having
22 regard to that chart or that comparison on page 19,
23 will you please comment on the various cost components
24 of a finished tonne of newsprint, and what I would like
25 you to do in particular is compare the cost position of

1 mills in Ontario to those in other parts of the world.

2 A. I would like to, first of all, make
3 the point that it's the total delivered cost that is
4 the critical factor and, in fact, if I could just refer
5 to the chart on page 18 for a moment I think it's
6 important in reference to this point.

7 This chart lines up essentially the mills
8 in North America, and from left to right the width of
9 the bar is an indication of the capacity of the
10 individual mill; the height of the bar is an indication
11 of its delivered cash cost. Newsprint is sold on a
12 delivered basis; in other words, essentially it's the
13 same price to a customer in the northern U.S. or
14 southern U.S. and the producing mill pays the delivery
15 cost.

16 And you see that some mills have much
17 lower costs than other and in a commodity market such
18 as this, particularly when there is surplus capacity
19 which is the circumstance at the present time, the
20 market price, because of the competitive nature of the
21 market, tends to come down until it's about at the cost
22 of the marginal producer who is then making a decision
23 to run his mill or not at essentially a break-even
24 level.

25 So if you turn back then to the table on

1 page 19, recognizing that the total delivered cost from
2 the various regions can be substantially different and
3 can be a real indicator of whether someone is going to
4 make money or not at a price which is determined by the
5 competitive market as a whole because he does not
6 have -- the individual mill or region doesn't have the
7 opportunity to directly influence that price.

8 This table is prepared on the basis of
9 1987 costs and shows a variation, for instance, between
10 Canadian mills and the U.S. south on a total delivered
11 cost of about 527 versus \$509 dollars, but that means
12 that for every tonne sold the typical U.S. mill is
13 making \$18 more which they can use for re-investment,
14 research, dividend, or whatever purpose they choose.

15 This comparison is extremely dependent on
16 exchange rates and this table is converted into
17 Canadian dollars on the basis of exchange rates that
18 were in place that year, but we have gone from a
19 situation which is - if I could ask you to turn to page
20 21 and show the comparison there - in 1985 Canada and
21 the U.S. south were roughly comparable in terms of
22 delivered cash cost. By 1987, Canada had shifted to
23 the disadvantage that we just saw on the previous table
24 where it was about \$18 more expensive, and by 1988,
25 numbers which unfortunately aren't shown here, but the

1 report just came out last week from the Forest Sector
2 Advisory Council, and the comparison between Canada and
3 U.S. is now \$63 in favour of the U.S. south, strictly
4 because of exchange rates in the interim.

5 So, in summary, we went from a position
6 where the typical Canadian mill was competing with a
7 typical southern U.S. mill on about an equal cost basis
8 in 1985 to \$63 disadvantage in 1988.

9 Q. Does that have an impact, sir, on the
10 orders that a company might get?

11 A. The market price is not influenced by
12 any one company and if the company is prepared to sell
13 at that price they can effectively take the order, but
14 it has a tremendous influence on whether they are going
15 to make any money or lose money as a result of making
16 that order.

17 Q. Okay. Going back to the chart at
18 page 19, the Chairman in the scoping session on behalf
19 of the Board asked a question with respect to the cost
20 for furnished material in Alabama. And I wonder if you
21 might address yourself to that, as to what the
22 significance of the cost comparisons are, having regard
23 to the situation in Alabama?

24 A. Yes. If I might just have a moment
25 to see if I have some specific information on that

1 here.

2 The substantial difference in cost of
3 wood in Alabama and in Canada I think is perhaps shown
4 more directly in a different place in the witness
5 statement where we have prepared a comparison of a
6 prototype mill in Ontario and in Alabama. It's on page
7 33.

8 Now, this picture on page 33 doesn't
9 refer to any particular mill, but it's essentially the
10 mill that we have under construction in Alabama if it
11 were to be built in Ontario or Quebec, or in response
12 to one of your questions, Mr. Chairman, I have also
13 developed the numbers for Manitoba and Newfoundland. I
14 just want to make the point that that same mill didn't
15 exist in those other jurisdictions. We have tried, to
16 the best of our ability, to represent what the costs
17 would be if it did.

18 You can see that there is a substantial
19 difference in the cost of the wood in Ontario and
20 Alabama. Some of the factors that affect that cost
21 are, first of all, the growth rate. The wood grows
22 more rapidly in Alabama, so that the total area that
23 you have to source wood for a particular mill is much
24 smaller and that reduces the hauling distance to the
25 mill which is a significant element of cost. It also

1 reduces the reforestation expense because of the much
2 more rapid growth rate and higher yields.

3 Another large element of the difference
4 is road construction. In many of our forest areas in
5 northern Ontario we must construct the roads to access
6 the areas that we are going to harvest and then
7 reforest, whereas in Alabama it's generally a federal
8 or state or municipal road system that is already in
9 place and can be used to access the areas and go into
10 the woods.

11 There are some differences in wage rate
12 and fuel costs, but I think the -- and the fact that
13 all of the wood supply in Alabama is sourced off
14 privately held lands and is not all regenerated, the
15 individual who owns the property makes his own decision
16 whether he's going to regenerate it or not, so he may
17 or may not take that cost into account in determining
18 what price he wants for his wood.

19 But I think that those elements, the
20 difference in growth rate and the consequent difference
21 in the haul area, the road construction and the
22 regeneration costs are the main factors in the
23 difference.

24 MR. MARTEL: Could I ask a question about
25 regeneration costs. What then becomes the consequences

1 if a owner decides not to take those costs into
2 consideration; will you have a situation similar to
3 what had occurred in Ontario prior to the FMA
4 agreements where in fact some were successfully
5 regenerated, other areas weren't, and for three or
6 four -- we made three or four efforts at passing the
7 ball back and forth between industry and the Crown to
8 try and get regeneration to occur.

9 Will that not similarly occur in the
10 United States?

11 MR. MACDONALD: There is a more or less
12 continuous passage back and forth between forestland
13 and farmland. Someone may essentially clear an area,
14 sell the wood and then use it for farmland, or someone
15 else may decide to take a rather unproductive piece of
16 farmland and reforest it. Some is regenerated
17 naturally.

18 If no one regenerated, your point is well
19 taken, then you can find a situation where wood became
20 more and more scarce and we are, in our interface with
21 the various landowners that supply it, are continually
22 trying to counsel them to regenerate it, particularly
23 on areas that would be unproductive for farming.

24 MR. COSMAN: Q. What, sir, is the age of
25 maturity of wood in Alabama?

1 MR. MACDONALD: A. If wood is cut for
2 pulp wood, 20 to 25 years in modern plantations.

3 Q. Now, in the scoping session, again
4 with respect to the relative cost of competitors, can
5 you assist the Board with a comparison as between other
6 provinces and Ontario.

7 A. Yes. Continuing to look at that
8 table on page 33, and the Board had requested
9 additional information on Manitoba and Newfoundland. I
10 have it here. I don't know if you have a copy there,
11 Bob.

12 Q. No. Why don't you just...

13 A. Well, I will just give you the bottom
14 line.

15 Q. The figures.

16 A. Just in relation to the delivered
17 cash cost for Ontario which is \$470, Manitoba would be
18 423 again for the same prototype mill, and Newfoundland
19 509.

20 Again, however, this is constructed on
21 the basis of delivery to customers in the U.S. and
22 Newfoundland typically wouldn't deliver into the U.S.,
23 so that's a somewhat hypothetical situation. There is
24 a high delivery cost to U.S. customers and raises that
25 number up to 509. At the total mill level,

1 Newfoundland would actually be 386 and Manitoba 346.

2 I would just like to add, if I could, in
3 reference to that chart that showed all of the mills
4 ranked up and the differences in total cost, that while
5 these are representative of areas where we are
6 operating with a prototype mill, individual companies
7 may have individual mills that are significantly above
8 or below those averages.

9 Q. Do you wish to comment on any of the
10 other cost components set out in your chart on page 19?

11 A. I think one that deserves comment is
12 the delivery cost. As I say, we do -- it is typical
13 throughout North America to sell newsprint on a
14 delivered basis and you can see the significant impact
15 that has when an Alabama mill can deliver for about \$36
16 a tonne and an Ontario mill is going to have to pay \$77
17 a tonne to deliver.

18 Obviously the mills are very energy
19 intensive, and so a difference in power rate does make
20 a difference. At the present time the rates in Ontario
21 are higher than any other province in Canada where we
22 operate or in Alabama.

23 And it may also be worth noting that in a
24 modern mill, such as this prototype mill is, that the
25 cost of labour is of less magnitude per tonne than the

1 cost of wood, the cost of power or, in most cases, the
2 cost of delivery. The employees are very well paid
3 with good benefits, but because of the modern design
4 and the high productivity, total costs of salaries and
5 benefits is not as high as in the older mills that
6 exist elsewhere.

7 Q. Now, you touched earlier upon
8 exchange rates, but I wonder if you might just indicate
9 to the Board what has been the impact of exchange rate
10 fluctuations on Canadian newsprint operations?

11 A. Well, I think perhaps the most
12 telling number in terms of Abitibi-Price is that 1-cent
13 difference in the exchange rate makes a difference of
14 \$8-million in our profit each year, and we find
15 ourselves at odds with most people that are thinking at
16 this time of year of vacationing in Florida when we
17 start to think of what direction we want the exchange
18 rates to go.

19 MR. COSMAN: Is the sound coming through,
20 Mr. Chairman?

21 THE CHAIRMAN: I don't know. Are those
22 on?

23 MR. MACDONALD: It's on. The little
24 green light is on anyway.

25 THE CHAIRMAN: Perhaps if you could bring

1 it closer to you.

2 MR. COSMAN: Q. And from there, sir, you
3 went to the newsprint group where you were Executive
4 Vice-President. And I wonder if you might just
5 describe for the Board, give them a context of what the
6 operations of the company are all about, what your
7 particular responsibilities were in that job?

8 MR. MACDONALD: A. As Executive
9 Vice-President of the newsprint group, I was
10 responsible for the newsprint group as a business unit;
11 that is, the woodlands operations, the manufacturing
12 operations in the mills and the sales and marketing
13 operations world wide and the profitability of the
14 newsprint group.

15 The CV indicates that that included seven
16 mills in Canada, one in the U.S. and at the same time I
17 continued responsibility for central engineering and
18 for research and development.

19 Q. And your professional background,
20 sir, is as an engineer?

21 A. Yes.

22 Q. And you are not a forester?

23 A. No, sir.

24 Q. In your present responsibilities as
25 Senior Executive Vice-President of the paper group,

1 what is your mandate for the company?

2 A. Well, in addition to the newsprint
3 group, Abitibi-Price had another group called the
4 printing papers group. The two have been combined in
5 the paper group and I have the same broad
6 responsibility for the paper group; woodlands, mill
7 operations, manufacture -- and marketing world wide.

8 Because the groups are combined, this now
9 comprises 11 mills in Canada, one in Augusta,
10 Georgia, of course one in construction in Alabama at
11 the present time.

12 Q. Would you describe, sir, the nature
13 of the operations of Abitibi-Price as a company?

14 A. Yes, I'll try. Abitibi-Price as a
15 company has two large groups, the paper group, which I
16 have just spoken of briefly, and what we call the
17 diversified business group. They are approximately
18 equal in total annual sales, about \$1.6-billion each.

19 If I could just speak about the
20 diversified group for a moment, that consists of four
21 divisions. The distribution business, Abitibi-Price is
22 the largest distributor of printing papers and
23 industrial papers in Canada with wholesale operations
24 from coast to coast.

25 The second one is the converting business

1 and this includes envelope -- the large envelope
2 manufacturer in Canada, Hilroy, the largest producer of
3 school and office supplies.

4 The third is an office products division
5 which is in Canada, and to a greater extent in the
6 U.S., is a supplier of information processing
7 equipment. And, finally, the building products
8 operation which is in the U.S., manufacturing external
9 siding for homes and internal panelling. That
10 diversified business group as a whole has about 5,500
11 employees, about 1,700 of them in Ontario. As I say,
12 that represents about half of Abitibi's total sales.

13 The other half is the paper group.
14 Abitibi-Price is the largest North American producer of
15 newsprint with eight mills and capacity of about
16 1.9-million tonnes per year. It is also a producer of
17 groundwood printing grades and coated paper grades,
18 five mills producing about 600,000 tonnes a year.

19 Abitibi-Price markets the output of the
20 paper group world wide, but in broad terms about 70 per
21 cent of it goes to markets in the U.S., about 10 per
22 cent in Canada and the remaining 20 per cent in over 30
23 other countries around the world.

24 So that if you compare last year when the
25 rate was \$1.18 Canadian to buy a U.S. dollar versus,

1 say, 1986 when it was \$1.39, that's a 20-cent
2 difference times eight, roughly \$160-million impact on
3 Abitibi-Price with that difference in exchange rate.

4 But as important is the picture that I
5 tried to give you a little earlier of the impact on the
6 competitive position of the various areas. You can see
7 that Finland and Sweden are really non-competitive on a
8 cost basis in the U.S--

9 Q. So far.

10 A. --at the present time. They were
11 very competitive back in 83/84 and were putting
12 substantial quantities of paper into the U.S. markets
13 at that time and they are now much higher costs than
14 Canadian or U.S. mills.

15 Q. I would like to turn, Mr. Macdonald,
16 to recycling, a very hot issue these days, and in your
17 witness statement you address it on pages 23 and 24.
18 Is recycling a new issue for industry?

19 A. Actually, no. Many mills had been
20 using recycled fiber for many years. Liner board
21 mills, newsprint mills, paperboard mills making paper
22 for cereal boxes, for instance, but it has become a
23 very hot issue in about the last year and a half and
24 there are several factors that have come together to
25 create this much heightened emphasis on it.

1 I think one of the first ones was the
2 shortage of landfill space, particularly in the
3 northeastern part of the U.S., and the rising cost of
4 disposing of waste as landfill sites closed and other
5 ones couldn't be opened up. And this was reflected in
6 the local tax bills for disposing of waste and it
7 became a very pressing problem.

8 And as soon as people started to look at
9 it they realized that old newspapers constituted a very
10 visible portion of the waste stream, something in the
11 order of 10 to 12 per cent - not the largest component
12 by any means, but a very visible one - and so it became
13 an effort to help solve the landfill space problem by
14 taking the newspapers out of the waste stream and
15 finding another use for them.

16 And programs such as -- similar to the
17 blue box program that's in place in this area were
18 implemented in many locations and it was not seen by
19 the average citizen as an onerous problem. In fact, I
20 think faced with his rising tax bill to dispose of the
21 waste and an opportunity to help conserve and help
22 participate in getting that tax bill down it made him
23 feel very good to participate in.

24 Publishers then sensed the trend and the
25 direction and got on board and started editorially to

1 support the whole activity and in their purchases of
2 newsprint to start to put pressure on suppliers. And
3 as frequently happens I guess, the supply of waste got
4 out of sync with the demand for the waste and large
5 collections of old newspapers started to build up
6 because the supply had developed so much more fast --
7 so much more rapidly than industry was able to invest
8 in facilities to use the old newspapers and recycle
9 them.

10 And so governments, many state
11 governments in the U.S. have reacted to this with past
12 or in most cases pending legislation to do a variety of
13 things, either impose a tax on the use of virgin
14 newsprint as opposed to newsprint that contains
15 recycled fiber, or to suggest subsidies for clients
16 that will use recycled fiber or to just mandate that
17 you have to use recycled fiber.

18 And I think the last factor that has come
19 into play to help this assume the profile it has
20 recently is technology; in that while I said it wasn't
21 new, that recycling had been around for a long time,
22 the technology has been developed more recently to
23 enable you to design a facility that's going to much
24 more effectively remove the ink and the other
25 contaminants from the old paper and magazines and reuse

1 them and make the kind of high quality sheet that
2 publishers and others demand today.

3 That's pretty well my list of the factors
4 that have put so much emphasis on recycling. And what
5 we have come up against is a whole list of implications
6 that flow out of this that we, Abitibi-Price, and other
7 newsprint companies have to answer before we determine
8 what our response is going to be, because the one thing
9 we do know is that building a facility to recycle old
10 newspapers and old magazines is going to be very
11 expensive.

12 We have been designing and estimating the
13 cost of such facilities in Ontario and other places and
14 to build one in Iroquois Falls, for instance, that
15 would produce usable pulp, 250 tonnes a day of usable
16 pulp out of old paper would cost \$90-million. At a
17 time when the over-supply of newsprint in our market
18 generally has driven the prices down to pretty well the
19 cost of a marginal producer so that some mills are
20 making little, if any, profits, \$90-million is a large
21 sum.

22 THE CHAIRMAN: Mr. Macdonald, when you
23 are considering whether or not you will build
24 additional facilities that can use recycled fiber, do
25 you take into account the market that you are shipping

1 into and what the requirements of that jurisdiction is
2 with respect to recycled fibers; in other words, if
3 they don't have to use recycled material, obviously the
4 cost of producing the newsprint in that jurisdiction
5 will be that much lower, they don't have to go through
6 the capital expenditure, so-called, to compete?

7 How do you go about determining whether
8 or not you are going to be on a level playing field
9 with your direct competition for a particular product
10 when the legal requirements vis-a-vis the use of
11 recycled fiber may be quite different?

12 MR. MACDONALD: That's an excellent
13 question, Mr. Chairman, one that we have been spending
14 a lot of time on in the last few months.

15 We anticipate that if you look 10 years
16 into the future, something like half the newsprint will
17 contain some recycled fiber, just assuming the amount
18 that can reasonably be collected and recognizing that
19 some of it does go to other uses, into export markets
20 and abroad and so on. So there still will be a supply
21 of virgin newsprint to some degree at that point in
22 time, and we have been trying to anticipate what the
23 legal requirements will be.

24 Many states have tabled legislation, only
25 a few have actually passed. Now we have signs that the

1 federal government is going to get into it and try to
2 eliminate some of the complexity by having federal
3 regulations, but it is really difficult to anticipate
4 at this point in time exactly what the legal
5 requirement is going to be.

6 THE CHAIRMAN: I guess my further
7 question is: Is there any integrated type of approach
8 between jurisdictions to make the requirements somewhat
9 uniform across the marketplace? Even bearing in mind
10 that you are dealing with two different countries in
11 trade talks, in sort of the general free market
12 atmosphere that we are in today, perhaps more so than
13 we were two or three years ago, is there that kind of
14 integrated approach amongst governments?

15 MR. MACDONALD: To my knowledge, there is
16 no discussion going on between the Canadian and U.S.
17 government in that area at the present time.

18 But in the context of our Ontario mills,
19 we are selling 80 per cent of our newsprint in the
20 U.S., our real concern is what is happening in the U.S.
21 We have to be able to continue to supply that market
22 and the one thing that's happening there that may
23 eliminate some of the differences is the federal
24 initiative.

25 The other really, however, is the

1 position of the publisher. The large publishers with
2 newspapers in many states are creating their own
3 uniformity by just saying: I will buy newsprint with
4 an average recycled content of such and such per cent
5 and I don't care whether you are supplying me in
6 Buffalo or Kansas City or Newark or whatever, that's
7 what I want. So there is some uniformity coming from
8 that direction.

9 But the decision -- theoretically I guess
10 someone faced with this whole thrust toward recycling
11 could make one of several decisions. One would be to
12 build a new brand new mill to use old newspapers to
13 make newsprint and many other things being equal, a
14 rather logical location would be somewhere near a major
15 metropolitan area where the waste is close by and the
16 ultimate market is close by.

17 Another decision would be to go into an
18 established newsprint mill, such as one of ours, and
19 retrofit it to build a recycling facility so that you
20 will idle some of your existing pulping facility and
21 replace it with the recycling facility. That wouldn't
22 increase the output of the mill, but it would provide a
23 percentage of recycled content.

24 And just to further complicate matters,
25 we are not sure we can't project accurately at this

1 point in time whether there is going to end up being a
2 different pricing structure in the market for newsprint
3 with recycled content and newsprint made out of virgin
4 fiber.

5 MR. COSMAN: Q. Why is that, sir?

6 MR. MACDONALD: A. Well, at the present
7 time essentially there is one price, whether it is
8 virgin or recycled.

9 Q. I realize that, but why would that
10 issue arise?

11 A. If there is enough demand for
12 recycled paper because of regulations, legislation, and
13 if the supply doesn't develop because suppliers see an
14 inadequate return on the investment in de-inking
15 facilities, then again if the supply and demand get out
16 of whack you could see an increased price on newsprint
17 paper with recycled fiber.

18 Q. Is there a difference in quality
19 between newsprint made of virgin or recycled fiber?

20 A. There are some differences, but with
21 the latest technology we believe that you can make a
22 high quality newsprint with -- containing a substantial
23 amount of recycled fiber.

24 Perhaps just one other point in this.
25 The decision is very site-specific. The cost of

1 getting old newspaper to a particular mill, the cost of
2 converting it at that mill can vary widely, the
3 availability of supply and a major portion is the issue
4 of avoided cost.

5 In other words, am I going to have to
6 spend a significant amount of money at a particular
7 mill to do something which I can avoid if I put in a
8 recycled fiber plant, de-inking plant. So that there
9 are no broad ground rules that would say it makes sense
10 for everybody to install de-inking plants or it makes
11 sense for nobody; it is a very site-specific decision.

12 Q. On page 24 of your witness statement
13 in the second paragraph on the recycling issue, in the
14 last sentence you say:

15 "Displacement of virgin fiber by recycled
16 fiber has the potential for impact upon
17 the workforce and communities now
18 harvesting timber for newsprint mills."
19 What did you mean by that?

20 A. Well, first of all, I feel that not
21 all of the existing mills will put in de-inking plants
22 and will convert, so those that don't convert will
23 probably have no impact. And those that do, recycled
24 fiber will replace a portion of virgin fiber that's
25 going into the mill and, as a result, there will be a

1 requirement for less wood and the employment in the
2 woods operations will be reduced.

3 I don't visualize that as a significant
4 impact province wide.

5 Q. You do not?

6 A. I do not, because I think that not
7 all newsprint mills are going to put in recycled fiber
8 and most of the wood that's cut in the province does
9 not go into newsprint mills.

10 And I think it will be short term as well
11 because that unused wood then becomes an opportunity
12 for that company to expand their operations and use
13 that wood; effectively, it's as if their allowable
14 annual cut had just been increased.

15 THE CHAIRMAN: But you need a market for
16 it, though; don't you?

17 MR. MACDONALD: But you need a market for
18 it and you need investment to capitalize on it. But
19 the opportunity has been created and I think that that
20 will get converted into reality at some point. So I
21 think an impact on employment will be a relatively
22 short-term one.

23 MR. COSMAN: Q. And this potential
24 impact that you refer to in that sentence, is that
25 something that in your opinion will take place in the

1 short term or the long term?

2 MR. MACDONALD: A. I am guessing that
3 those mills that are going to install de-inking
4 facilities in Ontario will make decisions within the
5 next year or two which will mean there will be on line
6 operating about a year later than that, so that the
7 impacts should start to develop two years from now or
8 something of that order.

9 THE CHAIRMAN: What's the basis for that
10 last statement you made, in the sense that there is an
11 over-capacity of production capability for pulp and
12 paper for use in newsprint now; is there not,
13 throughout the industry?

14 MR. MACDONALD: There sure is.

15 THE CHAIRMAN: And because of the waste
16 disposal problems on the other end, there is a movement
17 for either using recycled fiber or even the cutting
18 down of the use of newsprint. You read stories from
19 time to time about the size of the weekend newspapers
20 and is it really all that necessary to have a 400-page
21 newspaper for a weekend paper.

22 If that's the case, will not the demand
23 for newsprint over the long term in fact go down if you
24 have these pressures, or at least the capacity to
25 produce the newsprint remain high but the demand not

1 reach the capacity to supply and, therefore, if you
2 found yourself with additional wood capability or wood
3 production, you would have to use that wood for some
4 other use; would you not, other than newsprint?

5 MR. MACDONALD: Well, there are several
6 questions and if I can try and answer them.

7 You are definitely right, there is a
8 significant over-supply of newsprint production
9 capacity at the present time, and newsprint is a very
10 cyclical business; it tends to add the production
11 capacity in large quantities and then absorb them over
12 time. We are now at a stage where not many people
13 would be adding additional newsprint capacity if it
14 were not for the recycled issue, straight economic
15 decision wouldn't lead to it.

16 But the build up of old newspapers, the
17 legislative action, translated into demands by the
18 publisher I believe is going to lead to some new
19 capacity and to the installation of de-inking plants in
20 existing mills which in most cases won't add capacity,
21 it would just be substituted.

22 If the publishers support that, they do
23 not support obviously a reduction in size of their
24 weekend paper because every one of those ads in there
25 has been paid for by somebody and so far I have not

1 seen any legislative thrust to do that.

2 Long term, the consumption of newsprint
3 has risen two, two and a half per cent a year and we
4 anticipate that that tendency will continue.

5 So I think that the whole issue of
6 recycling may extend the period before supply and
7 demand come back into balance, but I believe they will
8 come back into balance. So someone with additional
9 wood could choose to wait until that development
10 occurred to use it for newsprint or he could follow
11 your other suggestion and very well use it for some
12 other product.

13 And, in fact, part of the rules of the
14 FMAs are that if there is allowable cut there that is
15 not being used, the company has to declare their
16 intention or the Ministry may decide to reallocate that
17 to someone else.

18 THE CHAIRMAN: Thank you.

19 MR. COSMAN: Q. Now, sir, I would like
20 to take you to page 32 of your witness statement and
21 that part of your witness statement which deals with
22 investment and reinvestment decisions. Would you
23 kindly explain the factors which impact upon a company,
24 such as yours, decision to invest or reinvest in a
25 given jurisdiction?

1 MR. MACDONALD: A. I'll try. First of
2 all, there are economic factors and there are
3 environmental factors and there are factors of impact
4 on communities and on employment.

5 If you are looking at a new investment as
6 opposed to an investment taking place in an existing
7 mill, you're obviously going to take account of the
8 market circumstances: Is it a growing market, is it a
9 product that is going to grow, is it a product that's
10 going to become technologically obsolescent, is it a
11 concentrated market in terms of buyer's power, what
12 does the competition look like?

13 And having satisfied yourself there, you
14 are going to go on to the areas of: What special
15 advantage do I have that would encourage me to build a
16 mill to supply this market, can I build a mill that
17 would be lower cost than most of the others, can I
18 build in some special technical advantage that will
19 give me a quality opportunity or some kind of a market
20 opportunity, how productive is the workforce in the
21 area, how well educated, trained, how constrained are
22 they by practices and union relationships?

23 And another significant factor is the
24 cost of building the mill. We have focused in some of
25 this information on the cost of operating the mill and

1 making newsprint and delivering it, but because of the
2 capital intensity of a business, the actual cost of
3 building the mill and the interest on that investment
4 is a very significant factor and, in some
5 jurisdictions, you can build a mill for substantially
6 less than in others.

7 You then look at the long-term viability,
8 and I referred to technical obsolescence, but more
9 important in terms of long-term viability I think are
10 the wood supply or the raw material supply: Can you
11 predict that you are going to have a wood supply that's
12 going to continue and is going to provide the quantity
13 you want and the species and quality that you want at
14 an economic cost.

15 And, finally, whether the outlook is
16 generally one of predictability in that area or that
17 jurisdiction, is there a history of recognizing a role
18 of industry in society and not changing the rules
19 overnight, or is there a history of the opposite.

20 Tax rates are a factor and we have some
21 information in the testimony on the variation of tax
22 rates and we have talked this morning about exchange
23 rates which are a significant factor. You can
24 appreciate the value in having your sales in the same
25 currency as your costs; for instance, a mill, let's

1 say, located in the United Kingdom where your sales are
2 in sterling and your cost would be in sterling as
3 compared to where you are producing in Canada, your
4 costs are in Canadian dollars and your selling price is
5 in sterling and you have no control over the exchange
6 rate that may make one of those swing one way or
7 another.

8 When you go beyond the economic factors,
9 you have to consider the environmental impact that it
10 is going to have. Some locations are just not suitable
11 for construction of a mill because of the water supply
12 in the area, for instance, and you have to consider
13 whether you can effectively design the mill to meet all
14 present and anticipated environmental impacts. You
15 also have to consider the impact on the communities and
16 employment and the infrastructure in the area of the
17 investment.

18 Now, all of those apply to, let's say, if
19 you are building a new mill somewhere. The truth of
20 the matter is that most of our investment is capital
21 investment that goes into existing mills, and you have
22 some supplementary considerations in those cases: Is
23 the existing mill competitive and is it going to have a
24 long life ahead of it because it has got an economic
25 wood supply, because of all the cost factors, or am I

1 really considering an investment that's going to prop
2 up a sick mill and try and make it viable for a short
3 period of time.

4 I think that in the case of investing in
5 existing mills we often find that we are talking about
6 new technology, modernization that is going to make the
7 mill more cost competitive, but is also going to have a
8 significant impact on employment and, in most cases, we
9 have found ways to minimize the impact.

10 The executive of the CPU, the Canadian
11 Papersworker's Union, have told us that they accept the
12 need for new technology and modernization if a facility
13 is going to be competitive and able to sell its product
14 in a competitive market and they have said: But we
15 want you to do whatever you can to minimize the impact
16 on the community, and typically that has been a
17 combination of providing special early retirement
18 incentives so that we can encourage the older members
19 of our workforce to take early retirement in a way that
20 would not impact their pension nearly as severely and
21 it means that they retire, they stay in the community
22 by and large and are a force there and the younger
23 members didn't -- of the workforce didn't have to be
24 displaced.

25 At the same time, with typical lead time

1 of two years from the announcement of a major project
2 until it is completed, there is some normal attrition
3 that takes place that helps to reduce it. So that we
4 have been able to ease the impact of technology and the
5 decision to invest on the communities because of those
6 things.

7 Q. Now, at page 35 of your statement
8 where you refer to business' need for predictability in
9 the investment decision-making process, you refer to a
10 number of pieces of social legislation in that context.
11 Are you or your company in opposition to that
12 legislation; is that part of what was being said here?

13 A. No, we are not in opposition to that
14 legislation and, in fact, the OFIA, the Ontario Forest
15 Industry, has supported -- specifically supported some
16 of those bills with letters to the Ministers.

17 In the case of the new Occupational
18 Health and Safety Act - which, as you know, is not
19 passed but is still in committee - we and our principal
20 union have jointly written a letter to the Minister of
21 Labour strongly supporting that legislation.

22 My concern is not with particular
23 legislation, it is generally with our need for a
24 predictable environment and one where the rules and the
25 costs associated with it don't get changed drastically.

1 The concern I expressed in terms of
2 Workmen's Compensation was not with the legislation so
3 much as what's happening with the assessments. In
4 Ontario woods, we now pay an assessment to WCB of 17
5 per cent of our payroll, so that our total cost has
6 increased by 17 per cent and that has gone up about 65
7 per cent in the last five years.

8 At the same time, our accident rate in
9 our woods operation is going down and last year the
10 assessment that we paid to the WCB in Ontario is more
11 than twice what we pay in other provinces per dollar of
12 payroll.

13 MR. COSMAN: I think, Mr. Chairman, that
14 answers your question with respect to that particular
15 paragraph.

16 MR. MARTEL: Could I ask a question.
17 You say your accident rate has gone down. What about
18 the seriousness of accidents though in terms of the
19 types of accidents suffered?

20 MR. MACDONALD: The seriousness has also
21 gone down or held constant. We express that with the
22 severity rate which is the number of days lost per
23 accident in effect. And while the frequency has gone
24 down, the severity has also gone down slightly or
25 stayed level year to year.

1 THE CHAIRMAN: Mr. Cosman, I think this
2 will be a convenient time for a break.

3 MR. COSMAN: Yes, Mr. Chairman.

4 THE CHAIRMAN: 20 minutes. Thank you.

5 ---Recess taken at 11:30 a.m.

6 ---On resuming at 11:50 a.m.

7 THE CHAIRMAN: Thank you, ladies and
8 gentlemen. Be seated, please.

9 Mr. Cosman, we are planning to go until
10 about one o'clock and then break for the lunch hour.

11 MR. COSMAN: Very good, Mr. Chairman. We
12 should then finish the first witness before lunch.
13 Maybe that should be the goal.

14 THE CHAIRMAN: Very well.

15 MR. COSMAN: Q. Now, just before the
16 break, Mr. Macdonald, you indicated your company's
17 support for Bill 208 and Occupational Health and Safety
18 legislation. I believe you referred to a joint
19 submission to the Premier on that.

20 I am showing you a letter from Abitibi
21 and the Canadian Paperworkers Union together to David
22 Peterson. Is that the letter that you are referring
23 to?

24 MR. MACDONALD: A. Yes.

25 MR. COSMAN: Mr. Chairman, I would tender

1 that as the next exhibit. (handed)

2 THE CHAIRMAN: Exhibit 1032.

3 ---EXHIBIT NO. 1032: Copy of letter from Abitibi-Price
4 and Canadian Paperworkers Union
to Premier David Peterson.

5 THE CHAIRMAN: One more, Mr. Cosman,
6 please.

7 MR. COSMAN: (handed)

8 THE CHAIRMAN: Thank you.

9 MR. COSMAN: Rather than read it, Mr.
10 Chairman, maybe at this point I could just ask the
11 Board if they would just take a minute to read it
12 rather than have Mr. Macdonald read it.

13 Q. Now, Mr. Macdonald I would ask you to
14 turn to page 41 of your witness statement and, again, I
15 am going to ask you to respond to a question from the
16 Board at the scoping session. And this has to do with
17 species utilization and utilization of poplar.

18 On page 41 in the first section under
19 species utilization, the last sentence of that section
20 says:

21 "I do not see an economic use for
22 hardwoods in the production of newsprint
23 of an ever-increasing quality."

24 Can you explain that sentence, please?

25 MR. MACDONALD: A. The hardwoods such as

1 poplar typically have a short fiber, a clean, easily
2 bleached fiber, but the short fiber doesn't give much
3 strength to the sheet of newsprint and if we use very
4 much of such a short fiber in the newsprint, then we
5 have to supplement the mix of pulps with some long
6 fiber kraft in order to balance it out and give it the
7 necessary strength.

8 Furnish that is based on black spruce is
9 much more cost effective and equally quality effective
10 or perhaps even more quality effective. That is not to
11 say that poplar isn't a valuable fiber, it is used in
12 making hardwood kraft, it is used in some other papers
13 where its capacity and bleachability are of value, but
14 I just don't see it being of economic use for
15 production of newsprint because of the nature of the
16 fiber itself.

17 Q. Now, sir, I want to ask you a
18 question about fiber supply itself and fiber supply is
19 obviously important to forestry companies operating in
20 Ontario. Is it important to have a predictable supply
21 of wood available to your mills?

22 A. Yes.

23 Q. How is this need fulfilled in
24 Ontario?

25 A. I just -- I think we have said enough

1 already about the capital-intensive nature of the
2 business and the size of the investment in the mill. A
3 new newsprint mill today might be something like
4 \$400-million and, obviously, when you make that
5 investment you are expecting a return over an extended
6 period, so the knowledge that you have of wood supply
7 available for that period that is going to meet your
8 requirements in terms of quantities, in terms of
9 quality, and in terms of competitive cost delivered at
10 the mill is extremely important. You wouldn't make the
11 investment without that.

12 I think there was a time when some mills
13 were built in Ontario, probably some of our mills that
14 were built in the 20s when people thought that there
15 was an adequate wood supply that would just go on
16 forever, and today we know that that is not the case,
17 we know that the supply is limited and it's limited not
18 just by other mills competing for it, but by losses to
19 insects and fire.

20 And so it's obvious that we have to
21 actively regenerate the areas that are harvested to
22 ensure that continuing supply and we are doing so.

23 Q. Do forest management agreements or
24 the system of forest management agreements, does this
25 system -- is this important to the security of your

1 supply?

2 A. Yes. We have, as I pointed out on
3 the map, two forest management agreements, one
4 supplying Iroquois Falls mills and one supplying the
5 mills in Thunder Bay. They are both extremely
6 important because the terms of the forest management
7 agreement indicate that Abitibi-Price, in this case,
8 has access to the wood supply on the area covered by
9 that agreement as long as we manage it properly.

10 And we are quite prepared to do so. The
11 Ministry reviews that at regular intervals to ensure
12 that we are managing it properly, and we are not going
13 to take any chance of not managing because we must have
14 that long-term wood supply. But if we manage it, we
15 always have 15 or 20 years guaranteed ahead of us on
16 the forest management agreement.

17 With the agreements and with the
18 knowledge that effectively we have tenure or the right
19 to cut the wood in that area in front of us, we have
20 markedly increased the regeneration activity and
21 expenditure going to regeneration and we have been able
22 to take steps at integrating the harvesting of the wood
23 and the renewal so that the two activities don't become
24 counterproductive.

25 We know that we are going to be doing the

1 harvesting and we are going to be doing the renewal
2 and, hopefully, we are going to be around to do the
3 harvesting of what is being regenerated now.

4 Q. In that regard, in respect of your
5 investment in regeneration activities on your FMA
6 units, a question was asked of Mr. Boswell during the
7 scoping session, but perhaps I can put it to you as
8 well.

9 Is Abitibi spending more money on
10 reforestation than it is receiving as compensation from
11 the Ministry for reforestation?

12 A. Yes, definitely gone over the numbers
13 since the FMAs were established and in Ontario we have
14 spent \$39-million more than we have received back from
15 the government as compensation.

16 Q. Thank you. Now, sir, I would like to
17 ask you -- go to a socio-economic --

18 THE CHAIRMAN: Sorry, is that on an
19 annual basis?

20 MR. MACDONALD: No, no, that is since the
21 FMAs were established.

22 THE CHAIRMAN: Oh, since 1980 or
23 thereabouts?

24 MR. MACDONALD: Yes.

25 THE CHAIRMAN: Thank you.

1 MR. MARTEL: Do you have a breakdown of
2 that that we can see?

3 MR. MACDONALD: I can get you a
4 breakdown.

5 MR. MARTEL: I appreciate that.

6 MR. COSMAN: It's a breakdown from what
7 perspective; you mean gross and net?

8 MR. MARTEL: Yes.

9 MR. MACDONALD: What I meant was, I can
10 give you a breakdown showing by FMA by year--

11 MR. MARTEL: Yes, that would be fine.

12 MR. MACDONALD: --our net investment.

13 MR. MARTEL: Thank you.

14 MR. COSMAN: Q. Now, with respect to the
15 socio-economic issues of community support by your
16 company, companies such as yours in northern Ontario, I
17 asked you to prepare a memorandum that sets out the
18 contributions of Abitibi to the communities where you
19 operate; that is, over and above taxes and stumpage
20 fees, et cetera.

21 And I am going to show you a copy of this
22 and perhaps we can have it marked as an exhibit. Is
23 this the document that was prepared at my request?

24 MR. MACDONALD: A. Yes, sir.

25 MR. COSMAN: Thank you.

1 THE CHAIRMAN: Exhibit 1033.

2 MR. COSMAN: (handed)

3 ---EXHIBIT NO. 1033: Copy of memorandum depicting
4 contributions to communities
in which Abitibi-Price operates.

5 MR. COSMAN: Q. Now, does your company,
6 sir, make a contribution to the communities in which it
7 operates over and above that which it's required
8 legally to do so by law?

9 MR. MACDONALD: A. Definitely. I think
10 that the two points that I hope you will accept is that
11 we are in the business in these communities for the
12 long term; the fact that our mills were established in
13 the 20s and are still operating indicates that, and we
14 recognize the importance of being a responsible
15 corporate citizen.

16 The document indicates that in the last
17 decade Abitibi-Price has contributed over \$12-million
18 to educational, health, civic, cultural and
19 conservation organizations and that is one indication
20 of our commitment to the communities.

21 In northern Ontario it amounts to
22 something like \$5-million in the 80s with a healthy
23 portion of that going to hospitals and other health
24 facilities. The United Way we see as an efficient
25 means of supporting community welfare needs.

1 Money has gone to efforts in bricks and
2 mortar and also for scholarships; Lakehead University,
3 Laurentian University are two. It probably isn't
4 surprising, given the nature of our business, making
5 communications papers, that Abitibi-Price is very
6 concerned about literacy and has supported programs
7 dealing with literacy awareness and training programs
8 in the communities where we operate and, on a national
9 basis, we have provided support to conservation
10 organizations which are listed in the document: The
11 Canadian Nature Federation, Canadian Wildlife
12 Federation, Conservation Council of Ontario, and so on.

13 And there has been a cultural component
14 in a number of communities as well as support for
15 athletic programs.

16 I think the only area of support that
17 isn't outlined in this document, which deals primarily
18 with donations, is our policy to source locally
19 wherever possible for supplies and our attempts to
20 broaden the base in one-industry communities. One
21 example of that would be the establishment of the
22 Woodex Plant by Shell just outside Iroquois Falls to
23 take wood waste and prepare them into a pelletized
24 product that we burn in our boilers in Iroquois Falls.

25 Q. I won't take you through everything

1 on this exhibit, Mr. Macdonald, but they are summarized
2 I take it in the last three pages of the exhibit by --
3 or four pages by dollar amounts actually to specific
4 ventures?

5 A. Yes.

6 MR. COSMAN: Now, sir, I want to talk
7 about corporate environmental policies and, in that
8 regard, I would like to file as the next exhibit
9 Interrogatory Question No. 10 and answer, Forests for
10 Tomorrow, which reads:

11 "Kindly provide us with a copy of each of
12 the Canadian Forest Management Policy and
13 Environmental Policy referred to on..."
14 particular page "...in the witness
15 statement?"

16 THE CHAIRMAN: Very well. That will be
17 Exhibit 1034.

18 ---EXHIBIT NO. 1034: Forests for Tomorrow
19 Interrogatory Question No. 10 and
20 answer thereto re: OFIA/OLMA
Panel 1.

21 MR. COSMAN: Perhaps I can start, sir, by
22 asking you: Is Abitibi committed to operating in a
23 sound environmental way?

24 MR. MACDONALD: A. Definitely, but I
25 would like to go back and build up to that position a

1 little bit, if I can.

2 Q. That is, build up to the policy
3 itself?

4 A. Build up to the policy itself.

5 Q. All right.

6 A. Which is the heart of that
7 commitment. Some years ago Abitibi formalized what we
8 called our corporate philosophy and guiding principles.
9 Abitibi, as you recognize from our statements earlier,
10 is a pretty large company, so large that it's difficult
11 to have one person or a small group of people making
12 all the decisions and in order to try to ensure that
13 the decisions are made the way we would like to make
14 them, or the way, recognizing the factors and weighting
15 them the way we would like to, we put together this
16 corporate philosophy and guidelines as a guide to
17 others in the organization.

18 And it states in it:

19 "Abitibi-Price recognizes that for our
20 company to survive and prosper we
21 must accept and balance our
22 responsibilities towards the varied
23 interests and concerns of our employees,
24 our shareholders, our customers and our
25 society."

1 In terms of society, we said:

2 "Our company is dedicated to being
3 responsible corporate citizens through
4 support of communities, through
5 protection of the environment..." and so

6 on.

7 And so going back -- I am not sure
8 exactly when that was first stated, but the statement
9 itself was not the first appearance of that concept of
10 balancing our obligations in our thinking and our
11 decision-making, but at that time it recognized the
12 need to protect the environment as part of our
13 responsibility as a corporate citizen.

14 Last year we felt it was desirable to
15 expand that into a specific environmental policy - and
16 that is the policy that you have just entered on the
17 record - again, to guide the decisions, because
18 environmental decisions are being made by a great
19 number of people in our organization, in our mills, in
20 our woodlands operations on a day-to-day basis, and we
21 felt that we had to have a more specific statement in
22 order to guide everyone in making those decisions.

23 When we put forward a policy like this,
24 it's a long agonizing process because we develop a
25 draft with input from a lot of our own people, we want

1 to have a policy that they feel comfortable that they
2 can live with and support, and we go out to a number of
3 groups to get feedback, and then once we have resolved
4 the policy itself, it becomes a matter of promoting it
5 extensively to all our employees so they understand it
6 and they are able to act on those guidelines.

7 And then, finally, in support of that
8 commitment to the environment, we established a
9 management committee on the environment which is
10 currently chaired by the president of our company to
11 scan the future, to determine what's coming at us in a
12 technological sense, in a regulatory sense in terms of
13 public opinion to audit and review our performance and
14 our progress on environmental concerns and to recommend
15 the actions that have to be taken to ensure that our
16 environmental performance does match the policy that we
17 have stated and accepted.

18 Q. I would like to ask you, sir: What
19 is the difference between the two documents; one is
20 styled Environmental Policy and the other is Forest
21 Management Policy?

22 A. Well, the Forest Management Policy
23 predated the Environmental Policy and it is built on
24 the same corporate philosophy, and you will see that
25 section in common on both, but it really deals with our

1 policy in terms of forest management; whereas the
2 Environmental Policy in one sense is more narrow, it
3 deals with environmental aspects, but in another sense
4 is broader in that it deals with environmental aspects
5 of forest management and mill design operation.

6 Q. I wonder if I can ask you to turn to
7 the second page of the Forest Management Policy and the
8 key elements that are set out on that page, and I
9 wonder if you might just highlight for the Board what
10 each of those key elements are? I will give you my
11 copy. Here. (handed) Excuse me.

12 MR. MACDONALD: A. I have one, I am just
13 not sure when you said the second page whether we are
14 at the same place.

15 Q. All right. Yes.

16 A. Okay.

17 A. The key element in the policy really
18 is land-based tenure, and I referred to that in
19 discussion of the FMA, that because we require a supply
20 of wood over the long term we are quite prepared to
21 enter into intensive forest management on lands where
22 we have tenure, where we have a reasonable expectation
23 that we will be able to harvest the wood that we are
24 involved in regenerating.

25 At the same time, under forest

1 protection, we recognize that it doesn't make sense to
2 make an investment unless you are going to protect it
3 and we accept a responsibility with the government
4 agencies for forest fire prevention and fire fighting
5 and we are actively encouraging government approved use
6 of insecticides to prevent losses to insects.

7 Reforestation, several key elements.
8 One, again, is on lands under our jurisdiction or where
9 we have tenure; another is that the regeneration
10 activity is site-specific and designed to suit each
11 site and the future needs of the mill that is being
12 supplied.

13 So that those principles guide the
14 selection of the species that are used and the spacing
15 and, in fact, the kind of regeneration activity. They
16 also support the safe use of government approved
17 herbicides as a portion of reforestation and forest
18 management.

19 The other elements, perhaps I don't need
20 to go into as much detail, but obviously good forest
21 inventories are essential for effective management.
22 Improved tree seedling stock is essential to get better
23 growth and yield. This is an area where some other
24 jurisdictions are ahead of us and we need further
25 research and development to catch up.

1 And this goes on to support forest
2 research and finally supports the principle of multiple
3 use of public land. The road systems have to be
4 developed for harvesting and renewal and protection and
5 can, under the right conditions, be used by the public
6 for other uses.

7 Q. And, in conclusion, Mr. Macdonald -
8 and perhaps my last question - I might ask you whether
9 there is any final comment that you would like to make
10 to the Board about your company's commitment to this
11 process; that is, the process of environmental review
12 and protection?

13 A. Yes. The basic message I would like
14 to leave is that we care about the environment. I
15 believe that our record supports that and shows that we
16 have made tremendous improvements over the years in our
17 means of protecting the environment.

18 We are here for the long term. Our mills
19 started in the 20s, but even in the last 10 years we
20 have invested over \$500-million in our mills in Ontario
21 in support of that long-term commitment plus
22 \$60-million in our woods operations, plus \$39-million
23 on our FMAs in that same frame.

24 I hope I have also convinced you that
25 Ontario is competing in a world marketplace with the

1 newsprint that they produce and with the other grades
2 of paper that they produce, and if society wants us,
3 Industry to be here, we have to have a certain ability
4 to carry on our business in such a way that we can be
5 competitive in that marketplace, and we do need a
6 predictable future to the greatest extent possible.

7 And, other than that, I am here to try to
8 help the Board understand the economic realities of the
9 business aspect.

10 Q. Thank you, Mr. Macdonald.

11 MR. COSMAN: Mr. Chairman, I will now
12 commence with my examination of Mr. Lafreniere. I am
13 just wondering -- I wonder if Mr. Macdonald and Mr.
14 Lafreniere can change places, or can you see all right
15 with your line of vision?

16 THE CHAIRMAN: Yes, I think it's okay
17 from up here.

18 MR. COSMAN: All right.

19 Now, I would ask the Board to have before
20 it Mr. Lafreniere's witness statement which perhaps --
21 it has been marked as B -- 1030B.

22 And you will see, Mr. Chairman, that
23 Appendix A to that witness statement has the curriculum
24 vitae of Mr. Lafreniere and Appendix B has a list of
25 the membership of the Ontario Lumber Manufacturers'

1 Associations and Appendix C is a technical paper
2 setting out the steps in the sawmilling process, and
3 Mr. Lafreniere will be addressing his evidence to the
4 issue of sawmilling, lumber manufacturing.

5 Q. And, Mr. Lafreniere, you are the
6 Vice-President Corporate Affairs, and Manager of the
7 sawmill division of A & L Lafreniere Lumber Limited?

8 MR. LAFRENIERE: A. That's correct, I
9 am.

10 Q. You are also a Director and a
11 shareholder of the company?

12 A. That's correct.

13 Q. And you reside in Chapleau?

14 A. Yes, I am.

15 Q. And are you a fisherman?

16 A. Yes, I am.

17 Q. Are you a hunter?

18 A. Yes.

19 Q. Are you a canoeist?

20 A. Yes.

21 Q. And are these activities that you and
22 your employees engage in in and around Chapleau?

23 A. On a regular basis, yes, we do.

24 Q. Now, sir, what are your
25 responsibilities as Vice-President and Manager of the

1 sawmill division of your company?

2 A. My primary responsibility is the
3 operation -- the management of the operation in
4 Chapleau starting from the accepting of the raw logs to
5 the mill, to the marketing end, the finished product,
6 to the shipment of the lumber.

7 Q. All right. And I understand you are
8 not a forester yourself?

9 A. No, I am not, no.

10 Q. And I am going to come in a moment to
11 how you employ foresters in your operations. But first
12 I might just ask you, in terms of your own background
13 which is set out in your CV, you have sat through a
14 number of proceedings such as this in the capacity of
15 Justice of the Peace; not quite the same as this--

16 A. No.

17 Q. --but you have presided over certain
18 judicial proceedings; have you not?

19 A. That is correct, yes.

20 Q. And do you continue to do that in
21 your community?

22 A. Yes, I do.

23 Q. All right. Now, having regard to the
24 map behind you, that is the forest management unit map,
25 I wonder if you might just identify for the Board where

1 it is that your mill is located and where it is that
2 your mill gets its wood from; point it out.

3 A. Our mill location identification No.
4 5008, that is the forest management agreement, and our
5 mill is located here in Chapleau. (indicating)

6 Q. And I understand, sir, that it's a
7 family-owned company?

8 A. Yes, it is.

9 Q. And it has been in your family for
10 some generations?

11 A. Yes, 45 years.

12 Q. 45 years. And you, sir, have one
13 mill; that is, your company has one mill that operates
14 in Chapleau?

15 A. That's correct, one mill, yes.

16 Q. And what is the nature of the
17 operation of that mill?

18 A. It's involved from the logging,
19 hauling, sawing and dressing and drying, right through
20 the finished product.

21 Q. Okay. And you referred to a forest
22 management unit which you identified by number. Who is
23 the party to the forest management agreement that
24 relates to the FMA unit that you identified?

25 A. We are one of the two co-operative

1 FMA's in the Province of Ontario which is composed of
2 two companies located in Chapleau; one is Chapleau
3 Forest Products and the other company is Lafreniere
4 Lumber, ourself, are the co-operative.

5 Q. So your company and Chapleau Forest
6 Products have created a company I understand?

7 A. That's correct.

8 Q. And that company, which is jointly
9 owned by both of you, is a party to an FMA with the
10 Crown?

11 A. That's correct.

12 Q. And what is the name of the company,
13 the co-operative company as you described it that was
14 created for that purpose?

15 A. It's Superior Forest Management.

16 Q. And what is the responsibility --
17 what is the operation, the nature of the operation of
18 that company, Superior Forest Management Limited?

19 A. Superior Forest Management mostly
20 involves the management of the forest and they look
21 after the planning process, the silviculture, the tree
22 planting and surveys, et cetera.

23 Q. So they manage the forest management
24 agreement unit in all of its aspects; do they?

25 A. That's correct, yes.

1 Q. And your company now - going back to
2 Lafreniere - what does it do; it receives the wood from
3 Superior Forest, is that how it operates?

4 A. No. It receives the planning part of
5 the -- from Superior Forest Management, the area where
6 to harvest, road boundaries and layouts, and it's given
7 over to our staff, our company staff, Lafreniere
8 Lumber, and from there we proceed to implement these
9 plans.

10 THE CHAIRMAN: Are you in effect a
11 third-party licensee from Superior?

12 MR. LAFRENIERE: Yes, Mr. Chairman, in a
13 sense.

14 MR. COSMAN: Q. So once that you have --
15 once that Superior has completed its responsibilities
16 of preparing a plan in accordance with the timber
17 management planning process, the actual operations on
18 that unit are carried out by your company in part and
19 by the other company that you have a co-operative with
20 in that respect?

21 MR. LAFRENIERE: A. That's correct.

22 Q. And would you conduct all of those
23 operations?

24 A. Yes, we do.

25 Q. What, for example?

1 A. We do the primary/secondary road
2 construction, we do the harvesting, the hauling and do
3 get involved in a small percentage on primary road
4 construction what is supervised by Superior Forest
5 under their supervision and contracted out by us or by
6 a general contractor outside.

7 Q. All right.

8 THE CHAIRMAN: Mr. Cosman, I am just
9 puzzled over the arrangement, not that there is
10 anything wrong with it.

11 But if you have two companies that wholly
12 own Superior, which is then the FMA holder under the
13 FMA licence but with each company being a third-party
14 licensee in effect from Superior, how does that all
15 work when they are the majority owners of Superior?

16 In that sense, I am concerned about the
17 fact that if there is a breach of the FMA agreement,
18 presumably it is a breach by Superior, but it is a
19 breach perhaps because the third-party licensees are
20 the ones that didn't follow the obligations under their
21 third-party arrangements; but they, in fact, are the
22 majority owners of Superior in the first place.

23 MR. COSMAN: Mr. Chairman, perhaps before
24 putting the question to Mr. Lafreniere, I would think
25 that you would be quite right in that the obligations

1 under the agreement are that of Superior and if those
2 obligations were not fulfilled, then presumably and
3 probably their licence or the agreement would not
4 continue in the future, which would mean that both
5 Chapleau and Lafreniere would not have access to wood
6 for their mills.

7 So in terms of the arrangement, you have
8 two small family-owned companies that through another
9 entity operate and do the planning for a unit under an
10 agreement with the Crown.

11 But in terms of the licensing
12 obligations, I would presume it would be no different
13 from a legal perspective than any other third-party
14 licensee and they would be subject to whatever
15 penalties there are in law for breaches of the licence,
16 with Superior in the end being the party that could
17 lose the agreement if the obligations under the
18 agreement aren't fulfilled.

19 THE CHAIRMAN: The only difference from
20 the usual situation is, is that the two operating
21 companies in fact are the majority shareholders of
22 Superior?

23 MR. COSMAN: Perhaps Mr. Lafreniere can
24 add to what I've said.

25 MR. LAFRENIERE: First just to clarify.

1 I know there are not too many co-operative FMAs in the
2 Province of Ontario, there's two in fact; there is one
3 in Hearst and one in Chapleau. We tend to call
4 Superior the true-blue co-operative because in the
5 sense of the word it's a very co-operative FMA.

6 The two companies that own Superior
7 Forest Management have got guarantees to Superior
8 Forest which, you know, guarantees the operation of
9 Superior Forest. So really it is not leaving the
10 companies -- the holding company, you know, the two
11 companies off the hook for any infractions or --

12 THE CHAIRMAN: That's what I am getting
13 at. It is really the operating company, your company
14 and Chapleau mill--

15 MR. LAFRENIERE: Yes.

16 THE CHAIRMAN: --that in effect guarantee
17 the performance of Superior.

18 MR. LAFRENIERE: That's correct.

19 THE CHAIRMAN: Why, because you own them.

20 MR. LAFRENIERE: That's correct.

21 THE CHAIRMAN: Notwithstanding that
22 Superior is the FMA holder pursuant to the agreement.

23 MR. LAFRENIERE: That's right. Yes,
24 superior was formed, Mr. Chairman, to facilitate the
25 functioning of the two companies to the shareholders

1 agreement between the two parties and to Superior
2 Forest Management.

3 THE CHAIRMAN: Okay, thank you.

4 MR. MARTEL: And the other FMA has three;
5 does it?

6 MR. LAFRENIERE: I think they do, Mr.
7 Martel.

8 MR. COSMAN: You are referring to the
9 Hearst situation?

10 MR. MARTEL: Yes.

11 MR. LAFRENIERE: I think they do.

12 MR. COSMAN: Q. And, as I understand it,
13 sir, the reason you have a co-operative FMA in this
14 context is that each company on its own may not be big
15 enough for an FMA unit that could be operated for
16 sustained yield management?

17 MR. LAFRENIERE: A. That's correct, yes.

18 Q. Now, just in terms of the employees,
19 the professional employees of the companies, does
20 Superior have professional foresters on its staff?

21 A. Yes, they do.

22 Q. And how many do they have?

23 A. They have two professional foresters
24 and two forest technicians.

25 Q. Two forest technicians. All right.

1 And do each of Chapleau Forest Products and Lafreniere
2 Lumber have as well forestry technicians in your
3 employ?

4 A. Our company don't have a professional
5 forester, we have three forest technicians. Chapleau
6 Forest Products have got four professional foresters on
7 staff plus two forest technicians.

8 Q. Okay. And where are the mills for
9 both Chapleau and Lafreniere in terms of location
10 respectively to each other?

11 A. They are a couple of miles apart in
12 Chapleau.

13 Q. And in your operation, sir,
14 Lafreniere Lumber, how many employees do you have at
15 the present time in your mill; that is, excluding the
16 number of employees that Superior has in its timber
17 management planning operations?

18 A. Presently we are running
19 approximately around 165 employees.

20 Q. And I think you indicated in your
21 report 225, but I guess it has decreased since then?

22 A. Well, it has decreased due to a lot
23 of changes in the forest.

24 Q. Now, in addition, Mr. Lafreniere, to
25 your employees, you have the employees you've referred

1 to of Superior. Do they have contract employees as
2 well -- or contractors, not contract employees?

3 A. Superior Forest does get into
4 contractual agreement with outside contractor for the
5 silvicultural side of the operation and road building,
6 et cetera, do contract all of the work to private
7 contractors.

8 Q. So they would contract out -- would
9 they contract out their spraying?

10 A. Yes, they would, yes.

11 Q. And the tree planting?

12 A. Yes.

13 Q. Surveys?

14 A. That's correct.

15 Q. And cartography?

16 A. That's correct.

17 Q. Is this from your experience a common
18 way in which the smaller company can operate?

19 A. Yes. Due to the fact that we don't
20 have the finance to carry all these professional staff
21 on staff, they are a one-time thing annually, so we
22 tend to contract most of our work out.

23 Q. Now, with respect to your sawmill
24 operations at Lafreniere, you have, I understand, a
25 sawmill facility. And what is the capacity of that

1 facility?

2 A. We have a capacity of 50-million
3 board feet a year.

4 Q. You have a slashing facility. And
5 what does that do?

6 A. The slashing facility does the
7 optimizing of the tree-length logs into the --
8 delivered to the mill into increment sizes of 8 to 16
9 feet.

10 Q. And you have drying facilities, I
11 understand. What are they and what is their role in
12 your operation?

13 A. Our drying is the drying of the
14 actual lumber, which we dry about 90 per cent of your
15 stock. It brings the moisture content down from 50, 60
16 per cent down to roughly around 14, 15 per cent.

17 Q. Is this what is known generally as
18 kiln-dried lumber?

19 A. That's correct, yes.

20 Q. And tell me in terms of the market,
21 just jumping ahead a bit, what is the demand in the
22 market for kiln-dried lumber as opposed to green
23 lumber?

24 A. Well, I think you are looking at two
25 basic markets, which I know for our company personally

1 and some numbered companies of our association, you are
2 looking at a U.S. market which will only take
3 kiln-dried lumber due to building codes and also the
4 shipment. You then ship to the Toronto market, the
5 domestic market.

6 Green lumber is acceptable, also dried
7 lumber within the domestic market is also acceptable,
8 but due to the price structure there is more green
9 lumber going into the Toronto market or domestic market
10 than KD lumber.

11 Q. All right. So the southern Ontario
12 market accepts both dry lumber and green lumber?

13 A. That's correct, yes.

14 Q. And your U.S. markets, what do they
15 require?

16 A. They require one hundred per cent
17 kiln-dried lumber.

18 Q. Okay. And, sir, just before you
19 referred to the fact that this is common to members of
20 your association. You are the President of the Ontario
21 Lumber Manufacturers' Association?

22 A. That's correct, I am.

23 Q. And that is your responsibility for
24 this year?

25 A. Until April, yes.

1 Q. You picked a good year.

2 A. Yes, very good.

3 THE CHAIRMAN: Why would there be such a
4 discrepancy in the building code requirements between
5 various areas, such as the U.S?

6 Is not the fact that lumber is used in
7 construction that's green cause a problem when you have
8 cold weather, it buckles or freezes and then expands or
9 something when it get warmer?

10 MR. LAFRENIERE: Well, if you look at
11 different areas you will have, for example, in the
12 building code it shows in a Toronto area that KD lumber
13 must be used on all construction or all housing
14 construction.

15 Now, it depends on your local people that
16 enforces that particular code. Like, they will
17 build -- if you build a house with green lumber you are
18 going to have warps and you are going to have blowing
19 nails and broken gyproc, and I'm sure you are aware of
20 those conditions, Mr. Chairman.

21 In the U.S. we are all controlled by
22 American Lumber Standards and Canadian Lumber Standards
23 which we have an integrated testing program that
24 assures that all the grades and the codes and standards
25 more or less meet the same criterias. And when it's

1 thrown out to the open market in the U.S. or the
2 domestic market, it all depends on local enforcement.
3 This is where the problem that the Industry faces with,
4 that certain legislation, a certain area will not
5 enforce the building codes.

6 THE CHAIRMAN: So it's not necessarily
7 that the building codes are different, it is the degree
8 to which those building codes are enforced?

9 MR. LAFRENIERE: That's correct, yes.

10 THE CHAIRMAN: Okay.

11 MR. COSMAN: Q. Now, you referred to
12 both U.S. and domestic markets. Can you tell me, sir,
13 in respect of your company what are the markets in
14 which you sell your lumber?

15 MR. LAFRENIERE: A. Most of our
16 production, I would say 75 to 80 per cent of our
17 production is shipped to the Michigan/Wisconsin market,
18 the other percentage is mostly done on the domestic
19 market.

20 Q. And what are the products that you
21 sell in those markets?

22 A. We sell mostly construction grade
23 lumber, dimensional lumber, 8 to 16 feet, that is
24 directed to housing and a very small percentage of
25 industrial.

1 Q. That is. You would sell a certain
2 percentage of lumber for industrial purposes?

3 A. That's correct, yes.

4 Q. Such as...?

5 A. Such as railroad ties and mining
6 timber.

7 Q. Are you looking, sir, at the present
8 time at overseas markets for your products. And
9 perhaps in that regard, can you tell us whether other
10 members of your association are looking overseas in
11 respect of the sale of lumber, Canadian lumber?

12 A. Yes. Some of our members of our
13 member association members, which is a small
14 percentage, they are shipping quite heavily to the
15 United Kingdom.

16 We are looking at it. In the past year
17 we've looked at shipping over to the UK. There are
18 certain amount of technical changes that we have to
19 undergo in our own plant to permit us from shipping to
20 the UK as the dimensions are different and also, you
21 know, the quality, the type of grading is a bit
22 different.

23 So it is an in-phasing period and see
24 that we are a fair ways away from ports and so on, we
25 are inland, it makes it a little bit more difficult to

1 access the UK market.

2 Q. All right. Since you have described
3 your markets as being predominantly 75 to 80 per cent
4 U.S., is the same for sawmill operations throughout the
5 area of the undertaking?

6 A. Well, not entirely. Within the
7 Chapleau/Sault Ste. Marie area we tend to be closer to
8 the American market at the mill level and when you look
9 at the area of Hearst and the Cochrane area, we seem to
10 be a bit further away from markets.

11 So the determinant for shipping to the
12 U.S. presently is really on freight costs. We get into
13 the Michigan market, but it is not entirely the same
14 market.

15 Q. All right. And would sawmills in the
16 Hearst, Timmins and Kirkland Lake area ship
17 predominantly to the U.S.?

18 A. No, I think there is a certain amount
19 of products from the Hearst area and so on that would
20 be shipped to the U.S., but I think it would mostly be
21 involved in the Toronto market for freight purposes.

22 Q. Is that a change of situation from
23 what it used to be?

24 A. Yes, I think it is a change. You
25 know, since the 15 per cent export tax and the exchange

1 on the dollar and the actual -- then we get back to the
2 question about drying and green question, the costs
3 involved into it, plus the freight going over to the
4 States, the exchange and the 15 per cent export tax, it
5 probably equals close to what we get being closer to
6 the market as far as freight comparisons.

7 Q. I will come specifically to the
8 export tax and currency exchange impacts in a minute or
9 two, but perhaps at this time you might tell us who are
10 the competitors for your company?

11 A. The prime competitors. I think we
12 are all competitors within our own area, but I think
13 our major competitors are between provinces and one
14 would be British Columbia and Quebec. Ontario seems to
15 be the hub of the greatest lumber market.

16 So we get infiltrated by two sides of the
17 country and we tend to be in the middle getting stamped
18 around as far as market is concerned. So I would say
19 British Columbia and Quebec is one of our greatest
20 competitors at present and a small percentage of the
21 northern part of Wisconsin and Michigan.

22 Q. The northwestern U.S.?

23 A. That's correct.

24 Q. So in terms of British Columbia and
25 Quebec, just so I understand this, sawmill operations

1 in those two provinces compete with Ontario sawmillers
2 both in the Ontario market, the southern Ontario
3 market; is that right?

4 A. That's correct, yes.

5 Q. And in the northeastern U.S. market
6 to which you refer?

7 A. That's correct, yes.

8 Q. Now, pages 10 and 11 of your
9 statement, you have a paragraph on competitive factors
10 for Ontario sawmill operations. First of all, sir,
11 similar to an earlier question, is the competition
12 stiff for Ontario sawmillers?

13 A. Extremely stiff, yes, it is.

14 Q. And why is that?

15 A. You have to deal with a lot of
16 components in the marketplace. I think one of the
17 greatest problems as far as market prices and the
18 determinant of what you would get f.o.b. Toronto, for
19 example, is the products that coming across from
20 British Columbia into the Ontario market.

21 We are faced with more or less of a
22 subsidized transportation freight from British Columbia
23 to Ontario. British Columbia will ship in the
24 neighbourhood of 2, 3-million board feet on transit and
25 will sell most of their product on transit, which that

1 dramatically affects the prices as it gets closer to
2 your market and the stuff isn't sold.

3 So presently you can ship from interior
4 B.C. to Windsor, ship cheaper than I could from
5 Chapleau to Windsor. So these are the things that we
6 are faced with in Ontario.

7 Q. In terms of competitive factors, what
8 about the quality of the product itself in terms of the
9 tree?

10 A. Well, I think a good example on the
11 quality of product, the effect that it has on the
12 marketplace is when you start looking at your
13 percentage of grades which runs into No. 2 and better,
14 No. 3 and No. 4.

15 Then when you look at the competitive
16 side, on the other side of -- our neighbours on the
17 other side of the province, Quebec, is in the Abitibi
18 region which is small trees, low grade which produce a
19 higher volume of studs for the housing market and are
20 dumped onto the Toronto market at a low price. Then
21 you run into a period within your own operation when
22 you get into certain areas where your low-grade product
23 or your low-grade timber will reduce tremendously your
24 average selling price at any given time.

25 Q. Are there any other particular

1 aspects of doing business in northern Ontario which
2 would give you a competitive disadvantage?

3 A. Well, I think in Ontario basically we
4 have other competi -- you know, other costs that affect
5 our production. One is the cost of energy which is
6 tremendously expensive in northern Ontario. That's one
7 of the main things that Ontario -- you know, some of it
8 increases the cost. And I forget the other one, I had
9 it on the tip of my tongue and it just slipped.

10 Q. All right. Is there an issue in the
11 volume sales that you feel should be brought to the
12 Board's attention?

13 A. In volume -- I'm sorry, I didn't get
14 you?

15 Q. That is, the volume of lumber is that
16 in terms of where it comes from within Canada. Is that
17 the point you were making earlier about the fact of
18 British Columbia?

19 A. Yes. I was making the point of the
20 transit sales that come from the western provinces,
21 that affects the market price on a domestic level. It
22 will leave British Columbia with 2 or 3-million board
23 feet and would be sold on transit and the closer it
24 gets to its domestic destination and not sold, the
25 price tends to want to drop fairly fast over a period

1 of time.

2 Q. All right. In the scoping session
3 the Board asked the question in relation to your
4 witness statement that: How do reserves, moose runs,
5 et cetera, add significantly to the total wood supply
6 cost. Can you assist the Board with why you made that
7 statement?

8 A. Well, I think through your -- when
9 you originally set out your TMP or what you were
10 approved to harvest -- and I think we have a small
11 study that indicates that particular fact -- is that we
12 go out and are approved in an area where there is --
13 concerned areas such as moose and lake reserves and so
14 on, then once we get the plan changed with the new
15 guidelines we lose a great percentage of the
16 harvestable area. So all our costs are based on the
17 volumes that we were supposed to get for that
18 particular area; so our road costs, our planning and so
19 on. So it has a tremendous effect on the actual cost.

20 One example on roads, for example, we had
21 I think up to -- in the study up to 59 per cent,
22 between 45 and 59 per cent cost increase due to the
23 added concern areas.

24 Q. Perhaps, Mr. Lafreniere, you referred
25 to a study. Is this the study done by Superior Forest

1 Management Limited for your company and that of
2 Chapleau Products?

3 A. That's correct. It is, yes.

4 MR. COSMAN: (handed)

5 THE CHAIRMAN: Exhibit 1035.

6 ---EXHIBIT NO. 1035: Study done by Superior Forest
7 Management Limited for A & L
8 Lafreniere Lumber Limited and
Chapleau Forest Products.

9 MR. COSMAN: Q. Now, sir, what is this
10 document that has been marked as a Superior Forest
11 Products study?

12 MR. LAFRENIERE: A. This is a study that
13 was made by Superior Forest Management on a specific
14 township and it outlines on the introduction side the
15 areas that - and these are all cost related, they are
16 not just area related - the cost that indicates the
17 increase of the costs by the -- if you take the first
18 map, the control map, these are the areas of concern
19 that were sent in originally, and the Figure 2, the
20 guideline map --

21 Q. Just before we come to that. I
22 realize you are not a forester.

23 A. No, I'm not, far from being a
24 forester.

25 Q. You are not the author of this

1 report?

2 A. No, I'm not.

3 Q. But this is a report that your
4 company had done for you; is that right?

5 A. That's correct, yes.

6 Q. And in terms of the conclusions of
7 that report, as you as management of your company
8 received them, what did this report say? And perhaps
9 you can point to that part of the report that
10 summarized the conclusions that you as management
11 received on the basis of the study?

12 A. Well, I think the conclusion of the
13 report that I looked at is on page 21 which--

14 MS. SWENARCHUK: Excuse me.

15 MR. LAFRENIERE: --indicates a road cost
16 as high as 45 to 59 per cent more in comparison to the
17 two areas.

18 MR. FREIDIN: What page are we looking
19 at, I'm sorry?

20 MR. LAFRENIERE: Page 21, I am sorry.

21 MS. SEABORN: Excuse me, Mr. Chairman, I
22 don't like to interrupt Mr. Cosman. This is the first
23 time that we have seen this particular study. It was
24 my understanding that the evidence during Panel 2 was
25 going to be dealing with cost of reserves and

1 . associated matters.

2 Will there be a witness available to
3 speak to this report in a future panel? There isn't
4 much time to have people review this and prepare
5 cross-examination in relation to this document.

6 MR. COSMAN: Mr. Chairman, this witness
7 is responding to a question from the Board as to how
8 reserves, moose runs, et cetera, add to the total of
9 the wood supply costs.

10 This particular witness who made the
11 statement is the President -- or the manager rather of
12 Lafreniere Lumber, he is giving the basis of his
13 statement to you.

14 My friend Ms. Seaborn is correct that we
15 will be calling as part of the second panel specific
16 evidence on the issue of impacts and the impact of
17 reserves, but as far as this report is concerned, no,
18 we are relying upon the evidence that was contained in
19 the witness statement in some rather hefty reports for
20 that purpose.

21 This is really to tell you the basis of
22 this particular witness' statement to the Board as part
23 of his evidence.

24 MS. SWENARCHUK: Well, Mr. Chairman,
25 that's fair enough. It would of course have been

1 helpful if we had known this report was coming and had
2 time to have it reviewed in advance.

3 I would echo Ms. Seaborn's concerns. Now
4 that the report has been produced and is evidence
5 before the Board, it seems to me that we are entitled
6 to adequate time for an expert review and
7 cross-examination on the evidence after that point and
8 I wonder if we could make some plans for that kind of
9 procedure.

10 MR. COSMAN: I would strongly disagree,
11 Mr. Chairman. If I was putting forward the author of
12 the report to support the evidence of this report, then
13 my friend Ms. Swenarchuk would be quite correct.

14 I am putting forward other evidence on
15 this issue. This witness, no matter how much time Ms.
16 Swenarchuk could have to review it, isn't going to be
17 able to assist other than the fact that this is the
18 report that management received, this is what its
19 conclusions were and this is the basis on which
20 management acted and this particular witness made his
21 statement in his testimony.

22 My friend can use this report to the
23 extent that she wishes in her cross-examination on the
24 second panel with respect to Mr. Ross, but I am not
25 tendering as part of my case the author of this

1 particular report.

2 MS. SWENARCHUK: But, Mr. Chairman, it
3 will be my submission that if Mr. Cosman is tendering
4 the report as part of his case, for the purpose of
5 establishing the truth of the statements in it, then he
6 is in fact obliged to produce for us the author of the
7 report for cross-examination.

8 MR. COSMAN: I cannot believe that coming
9 from the mouth of Ms. Swenarchuk who, together with Mr.
10 Lindgren, have filed countless reports as part of their
11 case in cross-examination.

12 THE CHAIRMAN: Well, in the context of
13 this case, Ms. Swenarchuk, there have been numerous
14 reports filed literally from all over the world.

15 MS. SWENARCHUK: From the published
16 literature, Mr. Chairman.

17 THE CHAIRMAN: Yes, from the published
18 literature, but it would be totally impractical in the
19 circumstances to require the authors of each and every
20 report that has been filed to be present to give
21 evidence.

22 Now, Mr. Cosman has indicated that this
23 particular report has been relied upon by this
24 witnesses, insofar as its conclusions are concerned,
25 for a statement that this witness made in his own

1 witness statement. To that extent, you can
2 cross-examine him on it as to why he relied upon it and
3 what part of the report he sought assurance from to
4 make that statement.

5 I think the Board agrees with Mr. Cosman
6 that as far as the issue of reserves increasing or
7 affecting or impacting costs, that will be dealt with
8 in a second panel and there will be witnesses to speak
9 to that.

10 MR. FREIDIN: Mr. Chairman, do I take it
11 from your comments that this report is not being
12 received then as evidence as to the proof of the fact
13 contained therein as to the increased costs?

14 THE CHAIRMAN: That would be the
15 reasonable conclusion, Mr. Freidin. This is solely
16 being produced, as I understand it, Mr. Cosman, for the
17 purpose of providing some basis for the statement made
18 by Mr. Lafreniere in his own witness statement, not for
19 the truth of the statements within this report.

20 MR. COSMAN: Yes, that is correct, Mr.
21 Chairman. On the same basis that the countless
22 documents that Ms. Swenarchuk has tendered and have
23 been received by the Board have not been accepted for
24 the truth of anything contained in them except to the
25 extent that a witness could speak to it.

1 THE CHAIRMAN: All right. On that basis,
2 Mr. Freidin and Ms. Swenarchuk and Ms. Seaborn, the
3 Board finds nothing wrong with this document being
4 tendered for that purpose, bearing in mind as well that
5 it was in response to a Board question.

6 MS. SEABORN: And I understand, Mr.
7 Chairman, from Mr. Cosman's comments - and, Mr. Cosman,
8 you can correct me if I'm wrong - that during Panel 2
9 if there is something in this report that we wish to
10 ask your witnesses about, even though the report author
11 will not be on Panel 2, they will be familiar with this
12 document insofar as the principles that may or may not
13 be enumerated in the document on costs of reserves are
14 concerned?

15 MR. COSMAN: Well, put it this way, Mr.
16 Chairman, my friend can ask any one on the second panel
17 anything she wants. The extent to -- the authors or
18 the witnesses in the second panel, again, are not the
19 authors of this report.

20 THE CHAIRMAN: No, and they can reply in
21 the second panel as to what extent they agree with the
22 conclusions in this report or the extent to which they
23 don't, or to the extent to which they have taken into
24 account anything contained in this report.

25 MS. SEABORN: That was my question. I

1 just wanted to be sure that they would be able to
2 respond that they were either familiar or not familiar
3 with the report one way or the other, and so that it
4 was a proper basis --

5 THE CHAIRMAN: We would assume they would
6 answer those types of questions.

7 MR. COSMAN: Certainly that question, Mr.
8 Chairman.

9 THE CHAIRMAN: Thank you. Proceed.

10 MR. COSMAN: Yes.

11 Q. I want to perhaps refer to the three
12 pages in this report that you have indicated to me are
13 important to your statement in your witness statement.

14 First of all, on page 22 of the report,
15 the second paragraph at the top, would you read that
16 particular statement.

17 MR. LAFRENIERE: A. "The report has
18 indicated implementation of the moose and
19 fishery guidelines will have a
20 significant impact on the wood costs of
21 wood supply and will, as a consequence,
22 reduce the competitiveness of the local
23 forest industry."

24 Q. All right. Now, in that regard I
25 understand there are two coloured maps which are the

1 only two coloured maps in the beginning of this report
2 that you would like to refer to. And perhaps you can
3 take us to those and tell us what each of those
4 represents, perhaps starting with the first one.

5 A. Well, not being a forester and
6 someone comes up to me and shows me these two maps I
7 quickly realize that I have a problem in that
8 particular area. And I can't carry you through this
9 report page by page, I presented it just for the
10 Board's information and Mr. Cosman's. I look at the
11 first map which is a control map that we send in for
12 our management plan and the second map is the guideline
13 maps --

14 Q. The second map is the same area; is
15 it not?

16 A. Same area, exactly the same area.

17 Q. Well, between the first map and the
18 second map there seem to be some differences with some
19 areas with yellow hatched lines. What does that
20 represent on the second map?

21 A. These areas are additional areas that
22 were put in for shelter and patches according to the
23 guideline map.

24 Q. All right. So if you look at the
25 first map, you have the harvest blocks illustrated in

1 green?

2 A. That's correct.

3 Q. If you look at the second map, you
4 have areas that have been carved out of those harvest
5 blocks and they are indicated by hatched yellow area?

6 A. That's correct.

7 Q. And so this is what you understood --
8 the illustration of what is contained in the report is
9 what you understood to be the basis of the conclusion
10 of the study--

11 A. Mm-hmm.

12 Q. When you, as manager of your company,
13 received it?

14 A. That's correct.

15 Q. And it was that illustration on those
16 two figures that supports, in your view, the statement
17 that you read to the Board on page 21?

18 A. That's correct.

19 Q. Okay. Now, sir, can you assist the
20 Board with how the export tax has had an impact on
21 sawmill operations in Ontario?

22 A. Since the export tax has been
23 introduced in 1986 we have seen a depletion on the
24 marketshare in the U.S. by, I would say,
25 approximately -- probably slip down -- we are down to

1 about 25 per cent.

2 Q. There has been a 25 per cent
3 reduction?

4 A. Yes. We used to ship 70, 85, 80 per
5 cent and a lot of the people presently are shipping 40
6 and 50 per cent and even less due to that export tax.

7 Q. And perhaps I might just at this
8 point in time ask Mr. Ted Boswell out of turn - he will
9 be testifying next, but since his company E.B. Eddy
10 also is and was affected by the export tax - the same
11 question.

12 Mr. Boswell, has the export tax had an
13 impact on your sawmill operations in Ontario?

14 MR. BOSWELL: A. Yes, it has. It has
15 had a tremendous effect on all sawmill operations
16 across this country, with no more seriousness in
17 Ontario than any other jurisdiction, but a serious
18 implication to the total sawmill industry that is very
19 difficult to overcome, it's 15 per cent right off the
20 bottom line.

21 And in a pure commodity such as lumber,
22 it's impossible to get that back, you can't get that
23 back from the consumer, particularly when the consumer
24 has the ability to buy lumber from the United States or
25 from other jurisdictions.

1 Q. Thank you.

2 MR. COSMAN: Now, Mr. Chairman, I have
3 noted the time. If this would be an appropriate -- I
4 am just about to start a new area. This might be an
5 appropriate time to break for lunch, given your earlier
6 indication.

7 THE CHAIRMAN: Very well. We will break
8 for an hour.

9 Thank you.

10 ---Luncheon recess taken at 1:00 p.m.

11 ---On resuming at 2:00 p.m.

12 THE CHAIRMAN: Thank you, ladies and
13 gentlemen. Please be seated.

14 MR. COSMAN: Thank you, Mr. Chairman.

15 Mr. Chairman, just a correction at the
16 outset. In response to Mr. Martel's question, I am
17 advised that the Hearst FMA co-op again involves two
18 companies, it's the Levesque Lumber and United Sawmill
19 and not three.

20 MR. MARTEL: What happened to the third?

21 MR. COSMAN: Lacroix Lumber, I'm sorry,
22 not Levesque Lumber.

23 MR. MARTEL: What happened to the third?

24 MR. COSMAN: Ah. Mr. Chairman, they are
25 not a party to the agreement, they operate on a

1 third-party licence, however, and maybe that is
2 where --

3 MR. MARTEL: No. My understanding was
4 they were supposed to originally be part of the co-op.

5 MR. LAFRENIERE: That was my
6 understanding too, but it seems like they were not part
7 of the co-op.

8 MR. COSMAN: Okay.

9 Q. Now, Mr. Lafreniere, have you been
10 the subject of currency exchange impacts in your
11 company?

12 MR. LAFRENIERE: A. Yes, we have.

13 Q. And I don't want to repeat what has
14 been said by Mr. MacDonald...

15 MR. COSMAN: And we are moving right
16 along, Mr. Chairman, and I am likely to finish my
17 evidence today.

18 THE CHAIRMAN: Very well.

19 MR. COSMAN: Q. But is there anything
20 additional to what Mr. Macdonald has said about
21 currency exchange impacts that you might wish to add
22 to?

23 MR. LAFRENIERE: A. I think the currency
24 impact that Mr. Macdonald stated, I don't have the
25 specific figure what it represents when the per cent or

1 so varies, but as an exporter of softwood lumber to the
2 U.S., exchange is extremely important to our company,
3 it represents a very large portion of that net return
4 to the mill.

5 Q. Now, I would like to go to one of the
6 questions the Chairman put in the scoping session and,
7 first of all, I would like to take you in your witness
8 statement to where you summarize various cost
9 components at page 18.

10 And, Mr. Lafreniere, on the bottom of
11 page 17 you indicate that:

12 "The fundamental problem faced by the
13 industry in Ontario is the high cost of
14 the product."

15 And then you go on to say that:

16 "The major cost factors contributing to
17 the high cost are...", and you list those
18 high cost factors.

19 First of all, with respect to the item
20 No. 7, Crown timber charges for roundwood, the Chairman
21 asked at the scoping session whether or not these
22 charges have been increasing over time or were they
23 always too high? Why did you include them as one of
24 the cost components in describing the cost factors that
25 made up your list?

1 A. Well, I think, first, generally the
2 prices for Crown dues have remained fairly constant
3 over the past year and statement No. 7 says -- what I
4 am saying, it's part of our cost, you know, it's a
5 percentage of -- one of the high percentage of our
6 costs of producing lumber. It's part of the cost
7 structure which is our prices.

8 Q. Is the highest cost to the sawmill
9 industry the cost of processing at the mill or the
10 costs before that of the wood delivered to the mill?

11 A. Yes. I think the highest costs in
12 your mill -- your overall mill price is your logging
13 costs, which represents the highest portion of your
14 cost.

15 Q. Now, I have asked you to work out
16 some percentages if you could just to give a general
17 feeling for that to the Board. What are the relative
18 percentages of costs in that regard?

19 A. Well, just approximately using
20 figures we are looking, for the logging part of our
21 operation you are probably looking at 60 to 65 per cent
22 for the logging; on the sawing side of it, you are
23 likely to look around the 25 to 30 per cent; the
24 planing and the drying is roughly around 10 per cent of
25 your cost.

1 Q. All right.

2 MR. COSMAN: Now, sir, perhaps at this
3 time I just might file an answer to an interrogatory
4 relating to relative costs.

5 Mr. Chairman, it was Forests for Tomorrow
6 Question No. 18:

7 "Kindly provide quantitative data to
8 support the statement on page 17 that the
9 Ontario product is high cost and
10 specifically that the cost factors listed
11 are high in Ontario relative to those of
12 your competitors."

13 THE CHAIRMAN: Exhibit 1036.

14 ---EXHIBIT NO. 1036: Forests for Tomorrow
15 Interrogatory Question No. 18
re: OFIA/OLMA Panel 1.

16 MR. CASSIDY: (handed)

17 MR. COSMAN: Excuse me for just one
18 minute, Mr. Chairman. I will be coming back to this,
19 Mr. Chairman.

20 Q. Mr. Lafreniere, I asked the question
21 of Mr. Macdonald as to what his company does for the
22 communities over and above that which by law his
23 company was required to do, and he provided some
24 information.

25 Can you tell me, sir: You are a citizen

1 and a member of that community in Chapleau both
2 personally and from a corporate perspective. Does your
3 company, and do you as an executive of that company,
4 make contributions to the community over and above that
5 which you are legally required to do?

6 MR. LAFRENIERE: A. Well, as a member of
7 the community for the last -- practically born in
8 Chapleau, so were most of my members of family, so a
9 lot of people realize what it is to live in a small
10 community and owning a business, your commitment to the
11 community is more sometimes than what you want it to be
12 because of the time involvement with it.

13 So our company has gotten involved over
14 the past year and ourself personally getting involved
15 in fund raising for extended care unit in the Chapleau
16 Hospital, getting involved in the complex -- sports
17 complex for the community, also a curling club and golf
18 club. We devote a lot of time and some financial
19 portion towards those projects.

20 We are also committed to a lot of service
21 clubs and organizations that we get involved in as an
22 employer of the community. So it's a commitment on our
23 part for the executive of the company and also our
24 employees to be fully involved in the community level.

25 Q. Sir, as the manager of the company,

1 is the protection of the natural environment an
2 important value for you?

3 A. Oh, very much so. I think living in
4 Chapleau we are in the wilderness 365 days a year, so
5 our concern to the environment is very important and
6 also very important to our employees, so we put a lot
7 of importance in to it.

8 Q. Thank you very much.

9 MR. COSMAN: Those are my questions for
10 Mr. Lafreniere, and I would like to direct my next
11 series of questions to Mr. Boswell.

12 Mr. Chairman, figure 14 in Mr. Boswell's
13 report had a number of minor corrections and I just
14 wanted to file a corrected figure for you. That is
15 found at page 27. (handed)

16 THE CHAIRMAN: We will just replace the
17 existing 27 with this?

18 MR. COSMAN: Yes.

19 THE CHAIRMAN: As far as the figure goes?

20 MR. COSMAN: Yes, that's correct, Mr.
21 Chairman.

22 MR. COSMAN: Mr. Chairman, the changes do
23 not affect any of the conclusions in the report itself.

24 THE CHAIRMAN: Thank you.

25 MR. COSMAN: Q. Now, Mr. Boswell, you

1 are the president of E.B. Eddy?

2 -- MR. BOSWELL: A. Yes.

3 Q. You are also the Chairman of the
4 Board, sir; are you not, of the Ontario Forest
5 Industries Association?

6 A. I am.

7 Q. And how long respectively have you
8 held those two positions at the same time?

9 A. For the same amount of time, one
10 year.

11 Q. Just before we deal with your
12 company, can you assist the Board with what the Ontario
13 Forest Industries Association is?

14 A. It is a group of companies that I
15 believe you have submitted to the Board who come
16 together to express as is best possible the commonality
17 of interest that the member companies have to various
18 branches of government, to other associations, and to
19 the public at large, the endeavors that those companies
20 think should be communicated to those groups.

21 Q. And has the environment been an issue
22 of interest to the Association?

23 A. The environment has been a major
24 issue of interest to the Association and going back a
25 fair way, but of course recently has been a

1 preoccupation of the Association, if you will.

2 Q. Now, sir, the Ontario Forest
3 Industries Association has adopted an environmental
4 policy; has it not?

5 A. Yes, it has.

6 MR. COSMAN: Now, Mr. Chairman, I am
7 going to be filing that. I have provided it to all of
8 the parties in an answer to an undertaking. I just
9 don't have sufficient copies to file right here at this
10 time.

11 I am advised, Mr. Chairman, it was a
12 corporate policy that was requested, but the Forest
13 Industry Policy itself was not filed, but I will be
14 making it an exhibit.

15 Q. Mr. Boswell, I would like you to
16 describe for me --

17 THE CHAIRMAN: Are you going to be
18 dealing with questions, Mr. Cosman, on that policy
19 right now?

20 MR. COSMAN: I wasn't intending to right
21 now.

22 THE CHAIRMAN: Okay. So we won't give it
23 a number right now.

24 MR. COSMAN: That is right.

25 THE CHAIRMAN: Very well.

1 MR. COSMAN: Q. Mr. Boswell, with
2 respect to your company, E.B. Eddy Forest Products
3 Limited, would you describe for the Board the nature of
4 its operations?

5 MR. BOSWELL: A. E.B. Eddy is a medium
6 sized forest products company with sales of
7 approximately \$700-million per year. We are almost
8 fully integrated from the forest through to the paper
9 markets with lumber and pulp also being major products.

10 We are for the most part a North American
11 company and not world wide, with one exception, we have
12 a subsidiary company that is growing, that is a
13 world-wide company, but in materials handling that is a
14 company that resulted from other research we did
15 internally to do with moving paper products and has
16 become a world-wide company onto its own for material
17 handling.

18 We operate in the Province of Ontario,
19 the Province of Quebec and the State of Michigan. In
20 Ontario we have two sawmills; one at Timmins and one in
21 Nairn Centre with a joint venture sawmill at a place
22 called Ostrom between Sudbury and Timmins.

23 We have a large integrated pulp and paper
24 facility at Espanola and we have paper machines and a
25 paper mill in Ottawa. We also have a paper mill in

1 Hull, Quebec and a paper mill in Port Huron, Michigan.

2 - Q. Well, sir, perhaps having regard to
3 the map behind you, can you identify the location of
4 your mills in the area of the undertaking as well, at
5 the same time, identify the units -- the forest
6 management agreement units that your company manages?

7 A. Let me do that backwards. We manage
8 the Lower Spanish Forest known as -- what is shown here
9 as 161, the Upper Spanish Forest shown here as 160, and
10 the Pineland Forest shown as 420, three distinct forest
11 management agreements.

12 The fiber from those agreements serves
13 our mill in Timmins, the joint venture mill near
14 Shining Tree at Ostrom, the Nairn Centre sawmill west
15 of Sudbury and east of Espanola, and the integrated
16 pulp and paper mill at Espanola.

17 Q. Thank you. Perhaps I can ask you to
18 turn to page 5 of your witness statement. At page 5 in
19 Figure 2 you describe the organizational structure of
20 your company.

21 Can you take us through this
22 organizational structure and tell us how each of the
23 components fit with each other?

24 A. Yes, indeed, and I will start with
25 the forestry division.

1 Q. That is the bottom box on the
2 left-hand side?

3 A. The bottom box on the left-hand side.
4 All of the fiber from our forest operations goes to one
5 of our sawmills and none of it goes directly to our
6 pulp mill. And at the sawmills, of which there are two
7 major ones, and one co-owned, joint venture, the fiber
8 from those mills, along with a lot of purchased fiber,
9 goes into our pulp manufacturing facilities at
10 Espanola. Then the pulp is either moved internally in
11 Espanola as an integrated pulp right to the paper
12 machines or to one of our other three mills, the paper
13 mills in Ottawa, the paper mills in Hull, the paper
14 mills in Port Huron, Michigan.

15 The sales function is both domestic and
16 U.S. and, that is, all of our paper sales. Our pulp
17 sales are similarly based in Canada and the United
18 States, as are our not insignificant lumber sales at
19 both sides of the border.

20 The E.B. Eddy's success, if you will, is
21 its total integration and control from the forest
22 through to the marketplace and being able to take all
23 of the interim steps into account in either looking at
24 the market or the forest.

25 Product development in the grades of

1 paper that we are in is vital and critical because we
2 are in a niche market served by almost no other
3 Canadian facility.

4 Q. Perhaps, sir, you might describe for
5 us what those markets are for each of paper, pulp --
6 kraft pulp and lumber?

7 A. Well, the lumber is sold in precisely
8 the same way that Mr. Lafreniere's was, it's a pure
9 commodity. As a result of the onerous 15 per cent
10 export tax, E.B. Eddy has changed their market share
11 from 70 per cent U.S. market to 70 per cent Canadian
12 market and are well situated to do so inasmuch as we
13 are the largest supplier close to the Toronto Golden
14 Horseshoe - do they call it - marketplace. Our pulp
15 is --

16 THE CHAIRMAN: Excuse me, sir. In doing
17 so, I take it that you would also play or have a
18 significant impact on the other smaller Canadian
19 producers of lumber that might normally supply the
20 domestic market if you were supplying 70 per cent of
21 your product to the U.S. market prior to your
22 change-around?

23 MR. BOSWELL: If I thought that I could
24 influence the lumber market, Mr. Chairman, in any way,
25 shape or form in any area of the world I'd be

1 delighted.

2 The fact is that lumber is almost a pure
3 commodity and comes at you from anywhere and sold
4 strictly on the basis of price, given Mr. Lafreniere's
5 explanation of the grading rules and how they are
6 adhered to through the American and Canadian lumber
7 standards. I would like to think that your comment was
8 applicable to me, but it isn't.

9 THE CHAIRMAN: So is what you are saying
10 essentially that the demand in the Canadian market --
11 if you are selling 70 per cent of your product to the
12 U.S. market, was the demand in the Canadian market
13 being made up from other Canadian producers prior to
14 you shifting over to selling 70 per cent of your
15 product to the Canadian market instead of the U.S.
16 market?

17 MR. BOSWELL: Yes, Canadian and American
18 producers. It isn't uncommon today that American
19 producers are in the Ontario market because of the
20 tremendous advantage they have been given with the 15
21 per cent export tax.

22 THE CHAIRMAN: Okay, thank you.

23 MR. COSMAN: Q. All right. We have
24 dealt with lumber. What about the markets for paper
25 and pulp?

1 MR. BOSWELL: A. Well, let me deal with
2 pulp first because it too, as you know, Mr. Chairman,
3 is a commodity and when approximately 70 per cent of
4 our pulp is consumed internally in our paper mills
5 somewhere in the United States or Canada; the other 30,
6 35 per cent is sold on the open market, it is sold to
7 large paper companies in Wisconsin, Michigan, Canada
8 and upper New York State for the most part and for the
9 most part is sold to non-integrated papermakers.

10 Our specialty and packaging paper grades
11 are sold in several ways, but for the most part they
12 are sold to sophisticated industrial purchasing agents.
13 Our specialty grades and our lightweight grades, for
14 example, go into religious papers -- religious printing
15 papers, bibles and those kinds of things; medical,
16 sterilizable papers going all by the way or for the
17 most part to the United States.

18 All of our -- most of our paper
19 production, with the exception of the few commodity
20 papers we produce, are United States bound and all of
21 our competition is in the United States or Europe. We
22 have very little competition in terms of production in
23 this country in our speciality paper grade.

24 Q. So I take it the American market is
25 very important to your company?

1 A. It's absolutely vital.

2 Q. In that regard, sir, what part of the
3 United States?

4 A. All parts of the United States with a
5 heavy concentration of course in the eastern seaboard
6 and in the midwest, but literally to every state in the
7 Union.

8 Q. Now, stepping back from the markets,
9 I want to see if I can personalize this a little. In
10 terms of the marketing efforts that a company such as
11 yours has to go through to land a contract to sell in
12 these competitive markets, perhaps you can give us an
13 illustration of what your company does and what
14 companies similar to yours do and what your competitors
15 do in order to obtain contracts in this particularly
16 difficult and competitive market?

17 A. We begin that process usually with
18 the gleam in a salesperson's eye in terms of what he or
19 she may find that an industrial consumer wants to do
20 with a sheet of paper, maybe to replace plastic in this
21 day and age when that's a popular undertaking, and so
22 they bring that idea back to our product development
23 people who are the key to our success as a company and
24 say: This is what the customer would like to do with a
25 sheet of paper, could you possibly develop a sheet of

1 paper with the fibers that we have available within the
2 Eddy Company, with the pulping capabilities that we
3 have within the Eddy Company, with the papermaking
4 facilities and expertise we have amongst our people to
5 do that, could you possibly make a sheet for them that
6 would do the job.

7 And the one that you will note in my
8 witness statement is the case of Johnson & Johnson in
9 the United States, when they wanted to change the kind
10 of sterilizable medical packaging they were doing, they
11 came to us and over a long, long period of time we
12 developed a sheet of paper that was satisfactory to
13 them, non-porous and all those good things that they
14 could wrap band-aids and other medical wraps in.

15 And that's piece by piece how we
16 developed all of our business, sometimes stealing ideas
17 from others, but for the most part that our most
18 successful and profitable grades have been developed
19 internally.

20 Q. So as an example, if one of your
21 salespeople had realized the Forests for Tomorrow cup
22 came in some plastic rather than some paper, they might
23 have come up with an idea which could have generated in
24 due course in sales?

25 A. No, but I did call our salespeople,

1 Mr. Chairman, and told them that Forests for Tomorrow
- 2 have a great need for a new kind of wrapping.

3 THE CHAIRMAN: What percentage of--

4 MS. SWENARCHUK: I appreciate that.

5 THE CHAIRMAN: --your product market do
6 you think that would represent?

7 MR. BOSWELL: Today, Mr. Chairman, it may
8 be significant.

9 MS. SWENARCHUK: Do we have to pay, Mr.
10 Boswell?

11 MR. COSMAN: All right.

12 Q. Mr. Boswell, I want to go to who the
13 competitors are that you have, and Mr. Lafreniere
14 described - that is, the competitors for the mills you
15 have in Ontario - and Mr. Lafreniere described in
16 respect of lumber both British Columbia and Quebec as
17 being important competitors as well as some
18 northwestern U.S. companies.

19 Is that, from your perspective, a
20 similar -- do you have a similar kind of answer to
21 that?

22 MR. BOSWELL: A. Yes, absolutely. I
23 guess Mr. Lafreniere was kind enough not to mention me,
24 but I would like to mention him as a competitor and a
25 significant one, particularly driving towards the same

1 markets since we are physically located to one another,
2 but exactly as Mr. Lafreniere outlined, Mr. Chairman,
3 the competition is indeed North American wide.

4 Q. And with respect to pulp and paper,
5 who are your competitors?

6 A. In the pulp business, which again is
7 quite different, our competitors are based around the
8 world in Scandinavia, in British Columbia, in the
9 southern United States and unfortunately for the
10 Ontario industry increasingly more from the developing
11 countries of South America in terms of substantial
12 tonnes of eucalyptus and softwood pulp now from Chile
13 that are becoming a significant force in the
14 marketplace.

15 In our paper business, our competition
16 comes from five or six companies in the United States,
17 P.H. Gladfeldter being the No. 1 competitor with us in
18 our grades, James River in the United States,
19 Consolidated Papers and then still some significant
20 contribution in our more sophisticated grades of paper,
21 particularly our very lightweight religious printing
22 papers from Europe.

23 Q. What, sir, are the competitive
24 factors that are at play with respect to your Ontario
25 mills and their ability to compete in these markets?

1 A. Driving from the market back, the
2 biggest competitive factor that we have is our ability
3 to market and to develop the products that we must
4 develop to stay competitive. And then following back
5 from there is our ability to finance the renewal, if
6 you will, of our paper manufacturing equipment to meet
7 the ever increasing demands for sophistication and
8 quality that we find increasing almost exponentially in
9 the marketplace.

10 So it is a very, very keen and
11 sophisticated sheet of paper that we like to think we
12 make and quality is the number one factor, and the
13 specifications of those sheets of paper surrounding
14 that quality are very stringent indeed.

15 And following back to there, of course,
16 we have got to have the right kind of fiber in our
17 pulps to make those sheets of paper. And we make both
18 hardwood and softwood pulps at Espanola, dense hardwood
19 and poplar and softwood, and the combination of those
20 pulps allow us the flexibility and the internal control
21 to deliver that sophistication in the marketplace.

22 And then to follow back from there is the
23 cost factor of those fibers as they go into the pulp
24 mill but, more importantly, the security of tenure
25 which is so vital as we continue to undertake massive

1 capital investments in this province, the security of
2 tenure surrounding our fiber supply.

3 Q. Thank you. I would ask you, Mr.
4 Boswell, to turn to page 20 of your witness statement.
5 The bar chart on page 20 that demonstrates your
6 company's capital spending for the Espanola division
7 separates out environmental, paper mill and pulp mill
8 investment. First of all, can you tell us what the
9 blue bar for environmental encompasses by way of
10 environmental investment; what is included in that
11 figure?

12 A. Well, first of all, let me put that
13 answer, Mr. Chairman, in the generic sense, that those
14 are the clearly definable environmental costs over that
15 period of time; those things that we can say we did to
16 improve the process to give more effective
17 environmental results.

18 Let me say that they are such things as
19 the expenditure we made on an aeration lagoon which we
20 think has contributed significantly to our low effluent
21 situation, oxygen-leaching Phase II is in those figures
22 and that we think is a direct environmental
23 expenditure. Kiln scrubbers and odour control systems
24 and chip dust control systems, those are clearly
25 definable and in those blue boxes.

1 What you don't see there is that in the
2 green boxes--there is a tremendous amount of
3 environmentally related expenditures that we couldn't
4 come to you, Mr. Chairman, and say were clearly and
5 strictly for environmental purposes. For example, in
6 there is a major new recovery boiler at Espanola that
7 has had tremendous impact on -- beneficial impact on
8 environmental matters, but that also gave us additional
9 production.

10 So that it is a combination of those two
11 and that's why the blue bars were specifically -- we
12 can specifically identify as environmental only
13 expenditures.

14 Q. Now, with respect to the issue of
15 poplar utilization, I would like to put to you a
16 question that the Chairman raised on the scoping
17 session.

18 You indicate in your paper that there is
19 some uncertainty as to whether or not you can use
20 poplar for the production of specialty papers. Can you
21 assist the Board from your perspective of whether you
22 see the utilization of poplar increasing or decreasing
23 in the future?

24 A. The answer to that question, if I had
25 it, I probably wouldn't have volunteered to come here

1 today, Mr. Chairman. It is a very, very difficult and
2 complex question.

3 With respect to specialty papers, I don't
4 see why there is any particular reason why it couldn't
5 increase; on the other hand, in terms of lightweight
6 publishing papers, poplar does not provide the opacity
7 which contributes so significantly in importance to
8 those publishing papers.

9 The bigger term picture with respect to
10 poplar is - and all other hardwoods - is somewhat more
11 complex. The increase in poplar pulping that has taken
12 place in this jurisdiction and in others around the
13 world has been in response to the demand for increasing
14 tissue products. Poplar gives bulk and it gives
15 softness, and the tremendous increase in pulping that
16 we as a company have experienced in poplar over the
17 last 10 years has been related to that.

18 However, the black cloud on that horizon
19 is that eucalyptus pulp which is coming on at a
20 tremendous rate, both in the Iberian Peninsula and in
21 South America, gives indeed better quality, in my
22 opinion, for tissue manufacturing than does poplar.

23 So that I think there will be some very
24 severe competitive constraints in the marketplace that
25 we won't be able to overcome from a cost point of view

1 because the eucalyptus pulp is most inexpensive and we
2 can't overcome it from a quality point of view because,
3 for tissue manufacturing anyway, it is the better pulp.

4 Q. Sir, I would like to ask you to
5 answer another one of the questions that the Chairman
6 on behalf of the Board raised on the scoping session
7 and that has to do with the role of E.B. Eddy in
8 providing fully trained fire crews.

9 You indicate in your witness statement
10 that your company does that, and perhaps you can assist
11 as to whether you are unique in that regard.

12 First of all, how do those fire crews
13 inter-relate or interface with the Ministry of Natural
14 Resources' own facilities in that regard and, from an
15 Industry perspective, is investment in fire suppression
16 something of importance?

17 A. Let me deal with the last question
18 first and say, categorically, it is of utmost
19 importance in a jurisdiction that appears to have a
20 diminishing fiber supply or indeed in a jurisdiction
21 where other uses for forest area are legitimate and
22 puts that area under pressure. You cannot afford to
23 lose fiber to fire.

24 In terms of our own case, we are very
25 concerned about the historical fires that have been

1 experienced on the river valleys on the north shore of
2 Lake Huron and I remind you all of the tragic fire in
3 the Mississauga Valley some years ago.

4 So that we, as a company, were vitally
5 concerned with that and did undertake training of our
6 own fire crews which are meant simply to get on to and
7 hold a fire because they are our own people, our own
8 loggers, our own forest technicians, whatever, it is a
9 mix of people that go into a fire crew to hold that
10 fire until the Ministry of Natural Resources can get to
11 the scene with whatever equipment or personnel they
12 deem is necessary.

13 Q. So it's complimentary to what the
14 Ministry does by just ensuring that your people get
15 there first; is that fair?

16 A. I see it that way and I hope the
17 Ministry does.

18 THE CHAIRMAN: And this is done entirely
19 on your own, you are not given assistance, financial
20 assistance in any way to do that?

21 MR. BOSWELL: Our trained people when
22 asked to work on a fire are paid a provincial rate, but
23 that is not for the initial attack, as I understand it;
24 that is, we bear that cost, and we bear the cost of
25 training, we bear the cost of our own fire training,

1 supervisor -- fire management supervisor is all at our
2 own cost.

3 THE CHAIRMAN: Thank you.

4 MR. COSMAN: Q. Now, I'd ask you, sir,
5 to turn to page 30 of your statement. At page 30 you
6 have a graph which deals with the reforestation
7 activities on E.B. Eddy's Pineland FMA from 1980 to
8 1988.

9 Now, we are going to hear in some detail
10 from witnesses later on in this hearing as to the
11 reforestry efforts that various companies are involved
12 in. But for purposes of answering the Chairman's
13 question at this time, the Chairman says:

14 "We assume that the work that is being
15 done, as shown by trees planted by Eddy
16 in green, is the result of the FMA
17 program."

18 And is that a fair statement?

19 A. Yes, it is. As you will notice,
20 there is no green in 1980 as we started into the FMA
21 program and we have gradually increased the amount of
22 the work that the company has undertaken in renewal to
23 the point that you see it in the graph in 1988.

24 Q. So why is it in 1980 there was no
25 green, as you indicate, by 1988 there is no pink, so

1 that in 1988 the tree planting on your FMA is being
2 done entirely by the company?

3 A. Yes, and that's not limited to tree
4 planting.

5 Q. Okay.

6 A. All renewal activities.

7 Q. All renewal activities?

8 A. To my knowledge.

9 Q. Okay. Now, also with respect to
10 reforestation, the Chairman asked whether the company
11 is spending more money on reforestation than it is
12 receiving in terms of compensation from the Ministry
13 for reforestation.

14 Can you tell the Board whether in fact
15 E.B. Eddy is receiving more from the government than it
16 is paying itself, or is E.B. Eddy making an investment
17 from its own revenues in reforestation and, if so, by
18 how much?

19 A. The net cost on the three forest
20 management agreements for reforestation over the
21 10-year period to E.B Eddy has been \$11-million.

22 Q. All right. Now, sir, I would like to
23 go to the issue of recycling, if I may, and from his
24 perspective, Mr. Macdonald provided evidence to this
25 tribunal on the issue of recycling. From your

1 perspective, do you have anything different or
2 complimentary or supplementary that you could add?

3 A. I think, Mr. Chairman, hopefully
4 complimentary with a different twist. The businesses
5 that we are in are fairly substantially different than
6 those of Mr. Macdonald's companies.

7 Recycling is important, very important to
8 the Eddy company and very, very important to its
9 customers in the sense of not what sheets of paper can
10 you provide me that are recycled and how much
11 recyclable material do they have in them, but rather,
12 where is your company coming from in environmental
13 matters, including recycling.

14 The grades of papers that we make, which
15 are some 300 and some odd, some are eligible to use
16 recycled material and others are clearly not. The
17 lightweight publishing grades, which I have included a
18 sample in my witness statement, which are tender and
19 fragile little sheets of paper to begin with, would not
20 be well suited to a fiber that is weaker than our best
21 northern softwood fiber.

22 On the other hand, some of our heavier
23 packaging grades can and will take recycled fiber and
24 at the moment we are recycling fiber in one of our
25 mills, it happens to be a Quebec mill, but the

1 principle is the same, to make a sheet of computer
2 print-out paper and many other grades of that kind.

3 So that we embrace, as Mr. Macdonald did,
4 the need to recognize the solid waste phenomenon and
5 indeed, I guess in our end of the business, our history
6 was even -- the history in the fine and specialty
7 business, particularly the fine paper business, is
8 somewhat longer than Mr. Macdonald indicated inasmuch
9 as we've been recycling used fibers for 300 years and
10 started, as you know, with cotten rags and that's how
11 the original fine papers were made and we've been
12 recycling ever since.

13 So it's not a new phenomenon for this
14 industry by any means. The light, I guess in the
15 Industry, is that the rest of the world has woken up to
16 the potential.

17 THE CHAIRMAN: Mr. Boswell, if I might
18 just go back for a moment and ask one quick question on
19 page 30 which is the Figure 16 again.

20 Since 1983, is there any significance in
21 the fact that the numbers of trees harvested and the
22 numbers of trees planted are roughly equal, without
23 going into the success rate of any regeneration
24 efforts?

25 MR. BOSWELL: I'm sorry, Mr. Chairman, I

1 don't understand that question. The number since
2 1983...?

3 THE CHAIRMAN: Well, since '83 it appears
4 roughly, if you take the number of trees in millions on
5 the left-hand axis, the vertical axis, and you have the
6 line going across trees harvested by Eddy, and then you
7 have the combined tree planting, whether it is by Eddy
8 or MNR or a combination, and does it not appear that
9 the harvesting amount --

10 MR. COSMAN: Mr. Chairman, just in terms
11 of the question itself--

12 THE CHAIRMAN: Yes.

13 MR. COSMAN: --it would seem that the
14 number of plantings is double.

15 THE CHAIRMAN: It's two to one. I am
16 sorry, I didn't mean one to one, I meant two to one.

17 MR. MARTEL: Two trees for one.

18 THE CHAIRMAN: Is that significant in
19 terms of the way the FMA agreement was structured in
20 any way?

21 MR. BOSWELL: No.

22 THE CHAIRMAN: There wasn't any provision
23 in the FMA that said for every tree taken out you will
24 put in two, as an example?

25 MR. BOSWELL: No, thank goodness. There

1 was a lot of political rhetoric around those figures,
2 but in fact I guess our professionals don't like to
3 talk about trees planted versus trees cut because that
4 is only one small part of the silvicultural exercise.

5 It should be -- there could be many other
6 things that come to bear on the sound forest renewal
7 program. That doesn't matter, you know, what that
8 ratio is. You could be doing a lot of aerial seeding,
9 for example, and that figure wouldn't look as it does.

10 THE CHAIRMAN: I just wondered --

11 MR. BOSWELL: No, there was no basis in
12 terms of negotiation or even discussed, and I was there
13 when the original FMAs were founded, to do with number
14 of trees planted versus number of trees cut.

15 THE CHAIRMAN: And so that graph looks as
16 it does just out of coincidence more than anything
17 else?

18 MR. BOSWELL: That's right, absolutely.
19 And it could -- there is no reason why that graph, Mr.
20 Chairman, couldn't change two years hence and there
21 would be a fall-off in terms of trees planted versus
22 trees cut for which the Eddy company would not be one
23 bit embarrassed because we would still have continued to
24 do what we thought was the proper renewal without being
25 hung up on a ratio.

1 THE CHAIRMAN: Don't get me wrong, I am
2 not suggesting any of that. I am just wondering why
3 the graph historically looks as it does, if there was
4 any particular reason other than that is the way it
5 worked out.

6 Thanks.

7 MR. COSMAN: Thank you.

8 Q. Mr. Boswell, on page 30 in the second
9 paragraph you indicate:

10 "We were one of the initiators of the FMA
11 concept and fully supported its
12 principles."

13 Is that still your position today?

14 MR. BOSWELL: A. As long as you would
15 like to read that properly, Mr. Cosman, "still support
16 its principles....", not supported.

17 Q. Fully support, sorry.

18 A. Absolutely.

19 Q. Thank you, sir.

20 A. There is no question in the minds of
21 the Eddy company of the tremendous accomplishment that
22 was gained in this jurisdiction in the Province of
23 Ontario with the signature of the forest management
24 agreements.

25 The success there I think of distances,

1 Mr. Chairman, anything that you could compare it with
2 in any other jurisdiction in the world, and that isn't
3 to say that there wasn't a lot of catch-up to do, there
4 was, but the fact of the matter is it's a principle
5 that we at the E.B. Eddy company fully support and will
6 continue to support the concept as long as it can be a
7 concept satisfactory to all users of the forest and
8 continues to show the tremendous increase in forest
9 silvicultural activity and renewal that it has in the
10 past, and I have no doubt in my mind that it will.

11 Q. How is the FMA concept important to
12 your company and that of other forest industry
13 companies?

14 A. The importance to my company is
15 simply that we have established in Ontario a basis for
16 some security of tenure, that we are now looking out to
17 20 years into the future and that given that you
18 perform as you have agreed to perform and as the people
19 of Ontario have asked us to perform, then that forest
20 management agreement gives us the assurance and the
21 tenure that we require to continue to grow the business
22 and the social fabric of northern Ontario.

23 Q. I would like now to take you to page
24 31, sir. And the top paragraph on page 31 refers to a
25 program in which your company has invested some

1 \$1-million. Can you describe what this program is and
2 why you would embark upon it?

3 A. Our tree improvement endeavors and
4 the thrust of our foresters in that area, as we have
5 mentioned I believe, on both Crown and private lands
6 along the north shore is in the belief that if we are
7 going to remain competitive with the rest of the world,
8 which is the marketplace we find ourselves in, that we
9 will have to find ways of increasing our fiber supply
10 and having more, if for no other reason, to keep up
11 with productive industrial creep, if you will; that we
12 cannot remain stagnant, and yet we know that the fiber
13 basin that serves our mills in northeastern Ontario is
14 limited; and, therefore, only through tree improvement
15 and good solid genetic programs can we expect to grow
16 more fiber on the land that is in northeastern Ontario.

17 And we are prepared to -- not only have
18 we committed that kind of money, but we are prepared to
19 commit that on both public and private lands in the
20 future. Part of that was to take over responsibilities
21 once held by the Ministry of Natural Resources in terms
22 of a well established seed orchard that we now manage
23 and coddle, if you will, and do all the right things
24 and that is very, very important to our foresters.

25 Q. If your company did not have the kind

1 of security of tenure that the FMA provides for, would
2 it make the kind of investments that it has in this
3 kind of project or in reforestation?

4 A. It would make those expenditures if
5 the security of tenure were even greater than 20 years.
6 20 years in those of us who are foresters' terms is not
7 a great, long period, it doesn't even cover a rotation,
8 let alone one or two rotations.

9 But in terms of the expenditures we have
10 made in northern Ontario you will note - maybe you
11 won't - but the fact of the matter is that the Eddy
12 company has significantly increased its capital
13 expenditures and its expenditures for plant and
14 facility on an exponential basis in this decade
15 vis-a-vis what it had done before.

16 MR. MARTEL: Mr. Boswell, the 20 years
17 though in reality is really more than 20 years
18 providing you follow the agreed upon practices laid
19 down by or in agreement between the Ministry and the
20 various corporations?

21 MR. BOSWELL: Absolutely, Mr. Martel. I
22 mean, that certainly we wouldn't be investing if it was
23 just the 20 years basis, and because we know that we
24 are meeting our commitments under the forest management
25 agreement, you are quite right, that we do see it as

1 much more, but at least we have some kind of a base
2 from which to operate.

3 MR. COSMAN: Q. Now, I would like to
4 take you back to page 1 of your witness statement, Mr.
5 Boswell. You set out a set of basic principles. Are
6 these principles that are stated on page 1 accepted by
7 your company and, for that matter, by the Ontario The
8 Forest Industries Association?

9 MR. BOSWELL: A. They are certainly
10 accepted by my company or they wouldn't have gone in
11 the witness statement, Mr. Chairman. Whether they all,
12 in those words, are the words of the Ontario Forest
13 Industries Association, I can't answer that question,
14 Mr. Chairman, but I can assure you that, as I
15 understand it as the Chairman of the Board of that
16 Association, that the concepts that are listed on page
17 1 of my witness statement are the concepts and
18 philosophies and principles of the Ontario Forest
19 Industries Association.

20 Q. And do you accept that the Industry
21 shares the forest with other users?

22 A. Yes, we do.

23 Q. Now, sir, with respect I have asked
24 Mr. MacDonald and Mr. Lafreniere to describe the kinds
25 of contributions that their companies make to the

1 communities in which they operate throughout northern
2 Ontario, and I am asking you the same question.

3 And, in that regard, did I ask you to
4 prepare a list of the kind of donations that your
5 company has made in the last year?

6 A. Yes.

7 MR. COSMAN: And I am tendering, Mr.
8 Chairman, as the next exhibit that document. (handed)

9 THE CHAIRMAN: Very well. That will be
10 Exhibit 1037.

11 ---EXHIBIT NO. 1037: List of donations made by E.B.
12 Eddy Forest Products.

13 MR. COSMAN: Q. Does your company have a
14 commitment to the communities in which it operates?

15 MR. BOSWELL: A. Yes, we do, and I guess
16 some of that is portrayed, Mr. Chairman, on the list of
17 activities in which we participate, but that list is
18 somewhat deceptive in terms of our commitment to the
19 communities is much further reaching than that list
20 might indicate, inasmuch as we encourage our people to
21 participate in community events, we encourage our
22 people and in fact provide time off so that they may
23 add to their not inconsiderable resources to fund
24 raising in the communities in which we operate, and we
25 endeavor to operate our mills and our harvesting and

1 renewal operations so that they are ongoing and without
2 pauses and without cyclical upturns and downturns and
3 we stridently try to achieve that consistency within
4 our operations, Mr. Chairman.

5 MR. COSMAN: Those are my questions, Mr.
6 Chairman.

7 THE CHAIRMAN: Thank you.
8 Who is ready to proceed. Ms. Swenarchuk,
9 are you?

10 MR. COSMAN: Mr. Chairman, I have one
11 interrogatory which was an interrogatory from the OMNR,
12 Question No. 4, and there was a correction with respect
13 to the statement of K.L. Macdonald. It wasn't again
14 significant to his evidence, but for the purpose of
15 accuracy on the record, I would tender that as the next
16 exhibit.

17 THE CHAIRMAN: All right. Exhibit 1038.

18 MR. COSMAN: (handed).

19 ---EXHIBIT NO. 1038: Correction to OMNR Interrogatory
20 Question No. 4 re: Panel 1
(Industry).

21 MR. COSMAN: This has been provided to
22 the parties, Mr. Chairman, but I have additional
23 copies.

24 The only other outstanding matter is the
25 filing of the Environmental Policy itself for the

1 Ontario Forest Industries Association and, again, I
2 will have to do that tomorrow morning.

3 THE CHAIRMAN: Well, you are finished
4 your direct at this point?

5 MR. COSMAN: I am, yes.

6 THE CHAIRMAN: So shall we not give it a
7 number at this point?

8 MR. COSMAN: I think that would be a wise
9 idea.

10 THE CHAIRMAN: Exhibit 1039 then will be
11 the Policy of OFIA.

12 MR. COSMAN: Yes, sir.

13 ---EXHIBIT NO. 1039: Environmental Policy of the
14 Ontario Forest Industries
Association.

15 MR. COSMAN: Yes, the Environmental
16 Policy, Mr. Chairman.

17 THE CHAIRMAN: Thank you.

18 MR. FREIDIN: Mr. Chairman --

19 MS. SWENARCHUK: Mr. Chairman --

20 MR. FREIDIN: Well, it may be that --
21 well, I would like to address the matter of order of
22 cross-examination, Mr. Chairman. I understand it was
23 raised at the scoping session, I didn't have an
24 opportunity to attend that occurrence.

25 As you know, I made representations on

1 another occasion on the order of cross-examination in
2 relation to Dean Baskerville. I made those submissions
3 fairly strenuously and I am not going to repeat them
4 now. I believe that the reasoning for those
5 submissions and the reasoning that I assume led the
6 Board to accede to my request to go last should be no
7 different in this situation than it was when I made the
8 submissions in relation to Dean Baskerville's evidence.

9 I have spoken to counsel for the Ministry
10 of the Environment, they have advised me that their
11 instructions are to take no position in relation to
12 this matter. That being the case, I submit that I am
13 taking a position.

14 I repeat the request that I made before,
15 I repeat the reasons. Particularly because the MOE
16 takes no position, I would ask that the Board
17 reconsider its decision and, in fact, permit the
18 proponent who is going to have to live with the terms
19 and conditions and make sure that they are complied
20 with to have the last opportunity to cross-examine.

21 THE CHAIRMAN: You mean for panels other
22 than this one?

23 MR. FREIDIN: All panels.

24 THE CHAIRMAN: Well, I think the Board's
25 position remains constant, Mr. Freidin. You go second

1 last in all other panels except the Industry's case, in
2 which case we have indicated that you could go last in
3 terms of this evidence with the Ministry of the
4 Environment going second last. I believe that was our
5 determination last week; was it not?

6 MS. SEABORN: Actually, Mr. Chairman, I
7 don't believe this matter came up last week, it did
8 come up at the scoping session. It was my
9 understanding that the way it was left that you had had
10 said that the Ministry of the Environment should likely
11 go last unless MNR could provide the Board with reasons
12 as to why they should go last. And I think it's as a
13 result of that matter that Mr. Freidin rises today.

14 I have one submission to make in that
15 regard.

16 THE CHAIRMAN: Well, we don't have our
17 notes in front of us, but it was my recollection that
18 we indicated at that scoping session that MOE, in terms
19 of the Industry's case, could go second last with the
20 Ministry of Natural Resources going last. We would
21 have to review our notes.

22 MS. SEABORN: Perhaps, Mr. Chairman, to
23 be of assistance, Volume 174 of the transcript at page
24 30873 provides a comment by yourself in this regard.

25 I would just like to make one statement

1 in relation to what Mr. Freidin said. He had indicated
2 to the Board that we are not taking a position on this.
3 Essentially we are only taking a position insofar as we
4 would be content to go in whatever order the Board
5 thinks is would be most useful to them for the purposes
6 of the Industry's case.

7 And that is the only submission I have in
8 relation to the order of cross-examination.

9 MR. FREIDIN: Mr. Chairman, perhaps
10 seeing that the Ministry of the Environment only has
11 instructions in relation to this particular case,
12 perhaps we could leave for a later date submissions in
13 relation to the order of cross-examination for other
14 parties and just deal with this particular party at
15 this time.

16 THE CHAIRMAN: Excuse us a moment.

17 ---Discussion off the record

18 THE CHAIRMAN: Well, Mr. Freidin, before
19 we start I think we will discuss this during a break.
20 I have read the transcript now and it appears that we
21 indicated last Wednesday that MOE would retain its
22 normal position of going last. So I am in error in
23 indicating that last Wednesday we said that MOE would
24 go second last with you going last, but we will
25 consider it in the break in terms of the Industry's

1 case.

2 It is the Board's view that with respect
3 to the rest of the case the Ministry of the Environment
4 will go last.

5 MR. FREIDIN: Mr. Chairman, if you are
6 going to in fact consider that matter and make a ruling
7 which will bind us in relation to the cases of other
8 parties, I would like the opportunity to respond to
9 your suggestion before you discuss it and make a
10 decision.

11 THE CHAIRMAN: Well, why should it change
12 over what has happened up to this point?

13 MR. FREIDIN: I believe that Ms.
14 Blastorah indicated that she did not have instructions
15 and was, therefore, unable to argue the matter fully.

16 I believe that it is an important
17 principle that the party who in fact is going to be
18 bound by the terms and conditions and must be in a
19 position to respond to the cases of all parties, and
20 that includes the Ministry of the Environment, I do not
21 believe, Mr. Chairman, that if you look at the terms
22 and conditions filed by the Ministry of the Environment
23 that it would be a fair characterization to say that
24 they are, in all respects, neutral. There is a clear
25 difference of opinion on some issues.

1 If the matter proceeds - and I am making
2 these submissions on the assumption that you have
3 indicated that the Ministry of the Environment perhaps
4 should be last, because they indicated at the outset
5 that they are neutral and weren't taking a position one
6 way or the other - there is no question that the
7 submissions and the position of the Ministry of the
8 Environment are based on a concern for the environment.

9 I am not indicating any ill motive or any
10 wrong motive in the position they are taking; however,
11 that does not detract from the fact that some of the
12 positions they are taking are different than the
13 positions taken by the Ministry of Natural Resources.
14 That being the case, should a party, regardless of who
15 that party is, be allowed to cross-examine after the
16 proponent and during that cross-examination elicit
17 evidence or answers which the proponent believes it
18 needs to address in order for it to fully put forward
19 its case then, in my submission, the proponent should
20 retain the right to cross-examine last.

21 THE CHAIRMAN: But don't you get the
22 right of reply, Mr. Freidin? Can't you address some of
23 those unanswered questions in reply?

24 MR. FREIDIN: Mr. Chairman, there is no
25 doubt about that. I would suggest quite strongly that

1 there is a difference between the ability of the
2 proponent to perhaps correct an impression or to
3 respond to a position 10 minutes or an hour after that
4 position has been made and that evidence has been led
5 and left in the Board's mind and the opportunity to do
6 it two years down the road.

7 THE CHAIRMAN: Well, you are not giving
8 the Board that much credit, Mr. Freidin. Surely we can
9 retain everything within our minds for an hour or so--

10 MR. FREIDIN: It's not only the matter --

11 THE CHAIRMAN: --and straighten it out at
12 the end.

13 MR. FREIDIN: I am sorry. My comments
14 were not intended to indicate that the Board could not
15 deal with it at a later date.

16 There is also the problem or the concern
17 about time. If I can correct a matter to the
18 satisfaction of my client on cross-examination -
19 keeping in mind that my client is the party that is
20 going to call reply evidence - I might very well be
21 able to avoid the necessity of preparing witnesses for
22 the purposes of dealing with reply and taking up the
23 time of this Board calling that reply and taking up the
24 time of the Board for further cross-examination and
25 re-examination to that reply.

1 THE CHAIRMAN: Well, why shouldn't the
2 party that has the mandate and responsibility for
3 environmental protection in this province have the
4 advantage of hearing the evidence put forward by the
5 other parties, including the proponent, prior to
6 commenting on that evidence?

7 MOE has that mandate, MOE is responsible
8 at the end of the day regardless of whatever conditions
9 of approval are mandated by the Board to enforce those
10 conditions of approval.

11 MR. FREIDIN: That is right, they have
12 the right to enforce it. But, in my submission, that
13 is a very different thing than the question as to who
14 has the responsibility to comply with it.

15 The Ministry of the Environment, they
16 will enforce whatever terms and conditions this Board
17 imposes. It is the Ministry of Natural Resources who
18 is going to have to live with those terms and
19 conditions and deliver on those terms and conditions,
20 that is the party who has most concern.

21 And I might add, Mr. Chairman - I don't
22 have any instructions specifically to say this, but I
23 will in any event - that the Ministry of Natural
24 Resources is every bit as concerned about the
25 environment in this province as I am sure all the

1 parties are, and I don't think that that should be the
2 basis on which you indicate what the order of
3 cross-examination is.

4 THE CHAIRMAN: Do you have anything to
5 respond to, Ms. Seaborn?

6 MS. SEABORN: Only my earlier submission,
7 Mr. Chairman, is that my instructions from my client
8 are that we are prepared to go in whatever place the
9 Board thinks our participation, during the Industry's
10 case at least, would be most helpful to the Board.

11 THE CHAIRMAN: Okay. I think we will
12 take a break at this time for 20 minutes and we will
13 let you know when we come back.

14 MS. SWENARCHUK: Mr. Chairman, may I
15 address the question of cross-examination?

16 THE CHAIRMAN: Yes, Ms. Swenarchuk.

17 MS. SWENARCHUK: My information from Mr.
18 Lindgren from the scoping session was that Mr. Cosman
19 was expected to be two days and cross-examination to
20 commence after the 6th. I was, therefore, prepared to
21 be ready the morning of the 6th should there be
22 speeding up of the process, and frankly not prepared
23 this afternoon. I have documents being prepared in my
24 office. And I can certainly be ready to go at nine
25 o'clock tomorrow morning. I would prefer that.

1 THE CHAIRMAN: All right. In fairness to
2 you, that was the arrangement. We are delighted when
3 we can speed up the proceedings to the extent that we
4 have today, but it shouldn't prejudice you, since this
5 was covered in the scoping session and a reasonable
6 estimate was given at that time.

7 So I don't think the Board's will compel
8 you to go on today.

9 MS. SWENARCHUK: For the benefit of other
10 parties, I might say that I think I will be relatively
11 brief in cross-examination.

12 THE CHAIRMAN: So when do you anticipate
13 finishing?

14 MS. SWENARCHUK: Tomorrow morning.

15 THE CHAIRMAN: Tomorrow morning?

16 MS. SWENARCHUK: I expect so.

17 THE CHAIRMAN: And who is the next party
18 in line?

19 THE CHAIRMAN: All right. We will settle
20 that in about 20 minutes. Before everyone leaves, why
21 don't we settle that tonight so you can go away and
22 decide who has to prepare what, when.

23 MS. SEABORN: Mr. Chairman, if it's of
24 any assistance, regardless of the order, I would expect
25 to be half an hour to an hour.

1 THE CHAIRMAN: Very well.

2 MR. FREIDIN: My time estimate is the
3 same.

4 THE CHAIRMAN: Well, does it make any
5 difference if we tell you tomorrow morning what the
6 order is then?

7 MR. FREIDIN: It doesn't affect me, Mr.
8 Chairman.

9 THE CHAIRMAN: All right. We will
10 adjourn today until nine o'clock tomorrow morning.

11 MR. COSMAN: Mr. Chairman, just before
12 you rise, because we have been able to speed things up
13 and avoid a repetition of any evidence, it may be that
14 we will be able to deal with Panel 2 more quickly than
15 anticipated as well.

16 If as we hear we are going to finish
17 tomorrow, I would propose, because again Ms. Swenarchuk
18 herself said she would take a full day on
19 cross-examination on the scoping session, I would think
20 that if we were to start with Panel 2 on Monday next
21 week we might be able to complete Panel 2 next week,
22 in which case we would want to move up the scoping
23 session which is scheduled for Wednesday.

24 MR. MARTEL: No, it's scheduled for
25 tomorrow night.

1 MR. COSMAN: That's right, it has been
2 moved to tomorrow night.

3 MS. SWENARCHUK: I think there are more
4 parties cross-examining on 2 than on this one.

5 MR. MARTEL: Unless NAN gets theirs in,
6 that is the only other one we have got of the Industry
7 as I understand it -- pardon me, MOE and MNR.

8 MS. SWENARCHUK: NAN is expecting to.

9 MR. MARTEL: We never received it as of
10 noon.

11 ---Discussion off the record

12 THE CHAIRMAN: So we wouldn't be starting
13 Panel 2 on Wednesday, that would not be?

14 MR. COSMAN: I think that is just about
15 impossible in the circumstances, Mr. Chairman, but we
16 would start nine o'clock Monday morning or whenever you
17 fix the date to start.

18 And, as I say, we will again not take the
19 Board's time unnecessarily and I am sure that we will
20 be able to complete.

21 THE CHAIRMAN: Very well. We will
22 adjourn until tomorrow at 9:00 a.m. I think we should
23 finish in good time tomorrow, based on what everyone is
24 saying.

25 MR. COSMAN: Should we start the scoping

1 session immediately after we complete rather than wait
2 until 5:00?

3 THE CHAIRMAN: I think that would
4 probably be advisable unless you are aware of any other
5 party coming specifically at 5:00 for that scoping
6 session?

7 MR. COSMAN: We will speak to the other
8 parties to let them know.

9 THE CHAIRMAN: All right. Thank you.

10 ---Whereupon the hearing adjourned at 3:23 p.m.,
11 to be reconvened on Tuesday, February 6th, 1990,
commencing at 9:00 a.m.

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